Economic Statement and Budget Update

Tabled in the House of Commons
by the Honourable Paul Martin, P.C., M.P.
Minister of Finance

October 18, 2000

Canada

Supplementary Information and
Notice of Ways and Means Motion Included

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Distribution Centre
Department of Finance Canada
Room P-135, West Tower
300 Laurier Avenue West
Ottawa, Ontario K1A 0G5
Tel: (613) 943-8665
Fax: (613) 996-0901

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Speech

by the
Honourable Paul Martin, P.C., M.P.
Minister of Finance

October 18, 2000
CHECK AGAINST DELIVERY

Introduction

Thank you.

Mr. Speaker, a little more than eight months ago, this Government presented the first budget of the new millennium. It was a budget that invested in health, in education, in the environment, and in children. A budget that introduced the most important structural changes to the tax system in decades. A budget that provided the largest tax cuts in 25 years.

At that time, we said we hoped to go even further in the future. What I would like to do today is to build on that budget; to confirm that because of the strong economic growth enjoyed to date and projected ahead, that we can, indeed, go further.

Canada begins the 21st century in a position of renewed strength, with greater resources and more choices than we have had for many decades. Our nation's success has been written by many hands. It is a tribute to the hard-working men and women of this country; to their effort, to their commitment. Because of their dedication, a future once beyond our imagination is within our grasp.

However, seizing that future will depend on the choices we make, now. Ours must be a vision that understands that in an era of globalization, it is more important than ever to have a national perspective, one based on the aspirations of *all* Canadians.

A vision that sees Canadian society as more than a collection of competing interests; that understands, yes, that we have a responsibility to manage our finances wisely, as stewards, but that we also have an obligation to one another, as citizens.

State of the Economy / Government Finances

Mr. Speaker, our country's recent economic performance has been striking. The last three months marked the 20th consecutive quarter of growth – the longest sustained period of gain since the mid-1960s.

Our current account is in the largest surplus position in its history.

Our foreign indebtedness, as a percentage of our economy, is at its lowest level in more than 20 years.

In the last 12 months, Canadians have created more than 360,000 new jobs. Our unemployment rate has fallen to 6.8 per cent – approaching its lowest level in 24 years.

And as a result, for the third year in a row, Canada has the best job creation rate of any G-7 country.

In the crucial area of productivity, our rate of growth for this year is almost twice the average of the last 10 years.

Even more importantly, Canadians are starting to see their real per capita disposable incomes rise, leaving more money in their pockets at the end of each month. In many ways, this is the true test of any economic program; the surest touchstone of real economic progress. For rising disposable incomes mean that more and more Canadians are participating in our nation's prosperity; that the progress we have made in our nation's finances is beginning to make a real difference in the finances of Canadian families.

All in all, Mr. Speaker, Canada's economic record of recent years is one of which we can be proud. That being said, the purpose of today's Statement is not to talk about where we've been, but where we must go; because far more important than the progress of the past are our prospects for the future.

Private Sector Forecasts

In planning for next year and beyond, the Government has once again asked the chief economists of Canada's major chartered banks and four leading forecasting firms to develop economic and fiscal projections.

On behalf of the Government, I want to thank all of those who participated in this exercise. Their contribution was invaluable and ensured that the fiscal projections we make for planning purposes are based on the most rigorous possible analysis.

The results are as follows:

First, the average private sector forecast is for our economy to grow by 4.7 per cent in this year, 3.5 per cent next year and roughly 3 per cent thereafter.

Second, based on these forecasts, and after adjusting for the Contingency Reserve and prudence, and after also deducting the amounts arising out of the recent Agreements on Health and Early Childhood Development, the average of the economic forecasts for the planning surplus is as follows:

for the year 2000-2001, $12.2 billion;

for 2001-2002, $10.9 billion;

for 2002-2003, $11.5 billion;

for 2003-2004, $11.3 billion;

for 2004-2005, $7.0 billion and

for 2005-2006, $10.7 billion.

These are encouraging numbers, but make no mistake. These surpluses are not a licence to spend freely, they are an opportunity to choose wisely. They represent a chance to improve the lives of Canadians and to increase the flexibility we will need to succeed in the new economy.

The question, therefore, we have to address is, on the basis of these planning surplus projections, what is the proper balance among paying down debt, reducing taxes and making key investments?

Our Plan

That is why we require a plan, a long-term plan. One that understands the economy of today, but even more importantly, recognizes the changes we need to make for tomorrow. There can be no doubt that we are in the early stages of an unprecedented revolution, of a new economy founded on a cascade of technological breakthroughs, in a world without frontiers.

Only a few countries will become the leaders in this new world. We want Canada to be one of them. For this to happen, Canada needs to be at the forefront of technological change; the first to corner untapped markets. We should be the standard by which other nations measure themselves. We must be an economy of innovation, not replication. As well, ours must be a society that recognizes that success begins with equality of opportunity.

Mr. Speaker, our goal cannot be simply to put up better economic numbers, but to lift up greater numbers of people – to provide the kind of strong foundation on which Canadians can build better lives. That is why our plan advances on four crucial fronts.

First, investing in the social fabric of this country – in health care and other areas which reflect the responsibility Canadians feel to one another.

Second, strengthening education, research and innovation, for in a knowledge economy, these are the surest paths to success.

Third, paying down the debt, because we owe it to our children.

And fourth, reducing taxes, because Canadians deserve to keep more of what they earn.

Investing in Canadians

Mr. Speaker, a successful plan strikes the right balance across a broad array of choices.

On the one hand, Canadians demand that their tax dollars be managed with the same care that they handle their own personal finances. They are right to do so. Therefore, let there be no doubt, we will continue to be frugal. Over the next five years, we will hold the rate of growth in program spending to less than the rate of growth in the economy.

On the other hand, Canadians want us to invest in those areas that matter most. Governments are judged by the priorities they set. Our priorities have been clear. From the time we balanced the books, in 1997-98, and including the measures I am announcing today, almost three-quarters of our new spending has been devoted to health care, children and education. These are the priorities of Canadians and these are the right priorities, for a country is not a balance sheet – it is the embodiment of the hopes and dreams of its people.

Health Care

Mr. Speaker, nothing is more fundamental to Canadians than quality health care. Nothing speaks more clearly to the collective responsibility we have to one another. That is why the Agreement reached last month by the Prime Minister and Premiers to renew health care is so important.

The federal commitment to this agreement is $23.4 billion – one of the largest single expenditures by any Canadian government in our nation's history. Of this, $1 billion will be invested in much-needed medical equipment, such as MRIs and CAT scanners and $21.1 billion will be added to the Canada Health and Social Transfer; this so that the provinces and territories can accelerate the changes necessary to ensure that Canadians receive the high quality health care they deserve; to increase the number of doctors and nurses, to shorten waiting lists, and to reduce the time spent in emergency rooms.

Environment

Another area where government must spend to ensure the health of its citizens is the environment. The quality of our individual lives is deeply rooted in the quality of the environment we share – in clean air and clean water. That is why in our last budget we set aside $700 million for environmental initiatives.

It is why the plan set out today incorporates the recent announcement of an additional $500 million to address the key challenges of climate change and air pollution, bringing our total investment in environmental measures this year alone to $1.2 billion.

Knowledge

Mr. Speaker, we have spoken of the need to become a nation that excels at innovation, of the need to be leaders in the new economy. For this to become a reality, all levels of government and all sectors of society must come together to ensure that knowledge in school, in the workplace and in all of its many facets, is at the very heart of the national agenda.

For make no mistake, success in the new economy will not be determined by technology alone, but by creating an environment of excellence in which Canadians can take advantage of their talents, their skills and their ideas.

This begins at the earliest age. That is why $2.2 billion was aimed specifically at early childhood development. These resources are to be used by provinces and territories to invest in promoting healthy pregnancies, birth and infancy. They are to be devoted to pre-school programs and child care, family support and parent information. With this funding in place, we can help ensure that our young children get the best possible start in life and arrive at school ready – and able – to learn. For children prepared to learn become adults equipped to succeed.

Mr. Speaker, ensuring that Canadians enjoy the best learning and research opportunities here in Canada has been a priority in each of our last four budgets. Today, we will do more.

Canadian students rely on the education tax credit to offset the cost of books, lodging and other expenses. As recently as 1995, the amount on which the credit was based was $80 per month. Over the past number of years, we have raised it to $200.

Today we will go further. Over the next five years, we will put an additional $1 billion into the hands of one million students by doubling that amount – to $400 per month, effective January 1st, 2001.

Over the past four years, this Government has introduced an unprecedented series of strategic initiatives to rebuild the research infrastructure of our universities, in order to attract and retain the best minds, and to expand their opportunities here in Canada.

Whether it is the Canada Research Chairs, Genome Canada, the Canadian Institutes of Health Research, or the Canada Foundation for Innovation (CFI), we want Canadians to be able to do world class research right here in Canada. Therefore, to reinforce Canada's capacity to be a global player in cutting-edge research, the Canada Foundation for Innovation will allocate up to $100 million of the funding it received in Budget 2000 to support the capital costs in Canada of several large collaborative research projects involving Canadian universities and leading facilities around the world.

Next, one of the key requirements for effective, world-class research is building the critical mass necessary for success. In order to build the cluster of leading researchers Canada needs, the CFI will allocate $250 million of the funding set out in Budget 2000 to provide new research infrastructure support for each recipient of a Canada Research Chair. This will be provided in a way that helps smaller universities, so that the benefits will be more evenly distributed across the country.

Furthermore, we are announcing today $500 million in new funding for the CFI, $400 million of which will allow it to assist universities and research hospitals to meet the operating costs associated with new research equipment and facilities provided by the Foundation and $100 million to help Canadian researchers participate in leading-edge international research projects, because doing the best research means being able to collaborate with the best scientists from around the world, from a strong Canadian base.

Mr. Speaker, if Canada is to be a leader in the new economy, we need to understand its opportunities and how to seize them; its educational requirements and how to meet them; its management skills and how to develop them.

More, we need to make lifelong learning a reality. To these ends, we are announcing today a special allocation of $100 million over the next five years to the Social Sciences and Humanities Research Council, so that Canada will be at the forefront of this vital research into the knowledge economy.

Debt

Mr. Speaker, one of the most important steps we can take to ensure a better future for our children is to reduce the burden of debt on their shoulders.

For more than a generation, Canada's debt-to-GDP ratio rose relentlessly. Over the past four years, however, both as a result of our Debt Repayment Plan and a growing economy, that ratio has been falling – from a peak of 71 per cent in 1995-96, to about 59 per cent today. This is the steepest decline among all G-7 countries.

We must continue on that downward track – and we will. Indeed, as a result of the actions we are taking today, we project that Canada will reach a debt-to-GDP ratio of about 40 per cent by 2005-06.

A few weeks ago, we announced a $12.3 billion pay down of our national debt for 1999-2000, bringing the total debt reduction over the past three years to more than $18.7 billion.

Going forward, the Government is adding a new element to its Debt Repayment Plan. We will continue the practice of setting aside $3 billion as a Contingency Reserve. However, each fall, from now on, we will announce whether a greater amount should be dedicated to that year's debt pay down. In some years we will be able to do so, in other years we will not. It will depend on the economic circumstances of the day. Mr. Speaker, when times are good, Canadians pay down their credit cards. Similarly, when times are good, government should pay down debt.

Therefore, we are announcing today that for this year, 2000-01, we will pay down a minimum of $10 billion dollars of debt. This means that over the last four years, we will have reduced the national debt by over $28.7 billion, resulting in interest savings of $1.7 billion, for each and every year going forward – money that will now be available to meet the priorities of Canadians.

Tax Plan

Mr. Speaker, let me now turn to taxes. Our tax plan is designed with the following objectives in mind:

First, providing tax relief to all Canadians but to moderate- and middle-income families in particular.

Second, helping those who need it most through a number of general and targeted measures.

Third, promoting job creation and economic growth to give Canada and Canadians an advantage in the new economy.

Our plan will achieve these objectives by legislating – not promising – the largest tax cut in Canadian history. And by bringing our measures into effect by January 1st, 2001, less than two and a half months from now.

Mr. Speaker, one of the central themes of both our last budget and this ensuing Economic Statement is the need to foster a culture of innovation and entrepreneurship in Canada. If companies are going to invest, we want them to invest in Canada. If they are going to create jobs, we want them to be created in Canada. If young people are going to have opportunities, we want those opportunities to be right here in Canada.

Our tax structure should provide incentives, not impediments, to achieve these goals. This is something that small businesses, particularly new start-ups, have been telling governments for some time. Therefore, in order to increase the amount of capital available to small businesses, Budget 2000 introduced a limited tax-free rollover of capital gains for eligible small business investments.

Effective immediately, this measure will be expanded to raise the amount of the rollover from $500,000 to $2 million. Furthermore, the size of business eligible for the rollover will be increased from $10 to $50 million. This will help existing Canadian businesses to look for new opportunities, to innovate and expand, to hire new employees. For new businesses, it will mean greater opportunity to secure the resources they need to succeed.

Next, at the moment, self-employed Canadians get a 17 per cent credit on both the employer's and employee's contributions to the Canada and Quebec Pension Plans. This puts them at a disadvantage with incorporated businesses, which can deduct the employer's portion of these contributions. To remove this disadvantage for self-employed Canadians, effective January 1st, 2001, the employer's portion of the contributions to these plans will be 100 per cent deductible.

Mr. Speaker, as part of our approach to encouraging entrepreneurship and the creation of new jobs – in Canada, for Canadians – Budget 2000 reduced the capital gains inclusion rate from three-quarters to two-thirds. Effective today, we will go further. We will lower the inclusion rate to 50 per cent and provide similar tax relief for employee stock option benefits.

Mr. Speaker, an internationally competitive corporate tax system is essential to sustaining economic growth. At the present time, we have a small business tax rate of 12 per cent. For larger companies, there are a number of Canadian industries that enjoy a competitive tax rate of 21 per cent. However, there are other sectors, like high tech where much of the new job creation is occurring, that face a tax rate of 28 per cent.

In Budget 2000, we set out a five-year plan to lower that rate from 28 per cent to 21 per cent. The plan called for a one-point drop next year with the remaining reduction taking place by the end of five years. Today, to ensure that these companies remain internationally competitive, we are accelerating that plan. In addition to the one-point reduction in the general corporate tax rate scheduled for this coming year, we will now legislate a two-point cut in each of the following three years. By accelerating – and legislating – this timetable, companies can invest with certainty, knowing precisely when, and by how much, their taxes will fall.

Mr. Speaker, let me now turn to the most important aspect of our tax plan – personal income taxes – and let me begin by telling you what our plan means for Canadians, especially moderate- and middle-income families with children.

The initiatives we announced in our last budget, eight months ago, would have reduced taxes for Canadians by an average of 15 per cent. Today, we will deepen these cuts to an average of 21 per cent. And for families with children, we will do more – providing an average tax cut of 27 per cent. As a result of the measures we announced in February and those we are introducing today, let me give you some examples of the tax savings for Canadians.

A two-earner family of four have a combined income of $60,000. Last year, they paid about $5,700 in federal tax. Next year, beginning in January, their taxes will fall by $1,000 – a first-year tax cut of 18 per cent. In less than four years, their taxes will fall by 34 per cent.

A single mom, with one child, earns $25,000 a year. Last year, she received a net benefit of over $1,400. Next year, beginning in January, she will receive an additional $800, for a total benefit of $2,200.

A couple with two children, and one parent working, makes $40,000. Last year, they paid $3,325 in federal tax. Next year, they will pay $1,100 less – a reduction of 32 per cent. In less than four years, this family will see their taxes reduced by 59 per cent.

A single father with one child earns $33,000 a year. Last year, he paid almost $900 in taxes. Next year, he will pay no net tax whatsoever.

Those are the stories, Mr. Speaker. What do they tell you?

They tell you we are cutting tax rates for all Canadians, that we are doing so substantially, that we are going further and faster than previously pledged, and we are not waiting for some undefined time to do so – these cuts take effect in less than two and a half months from now.

Let me now turn to the measures.

For those Canadians earning between roughly $60,000 and $100,000, we will reduce the current 29 per cent tax rate to 26 per cent, effective January 1st. We will eliminate completely the deficit reduction surtax, effective January 1st.

In Budget 2000, we committed to lowering the middle tax rate from 26 to 23 per cent over five years. Today, I am announcing that moderate- and middle-income Canadians won't have to wait five years, nor will they have to settle for 23 per cent. We will lower the middle rate effective this January – and we will reduce it to 22 per cent.

Mr. Speaker, let me now describe our approach to tax relief for low-income Canadians – those who need it most. This is where our tax cuts began, even before our books were balanced. Over the past three years we have raised the threshold at which no net tax is paid, removing one million Canadians from the tax rolls altogether. Eight months ago, in the most important measure of Budget 2000, we restored full indexation to our tax system – a measure designed to help low-income Canadians in particular.

However, this is not our final word. We have always said that as resources permit, we would do more for low-income Canadians, and we will do so in each and every budget going forward. Today we take the latest but not the last steps.

First, we will lower the 17 per cent rate to 16 per cent effective this January.

Second, in order to assist these families with children, we will increase the National Child Benefit Supplement by $100 per child. This is in addition to the $200 increase announced in Budget 2000, bringing the increase in the Supplement to $300 per child, effective July 1st. In less than four years, this increase in the Supplement will mean a total benefit of more than $2,500 for the first child, with corresponding benefits for additional children.

Third, Mr. Speaker, as the colder months approach, Canadians are concerned about the impact of rising energy prices on their home heating bills. This concern is particularly acute for those on low incomes.

Three weeks ago, Government members of Parliament proposed an amendment to an Opposition motion in order to ensure that relief is targeted to those who need it most. We agree. We are, therefore, announcing, at a cost of $1.3 billion, a one-time relief of $125 per individual or $250 per family to assist low- and modest-income Canadians in dealing with their home heating expenses.

Mr. Speaker, this Government has always understood that there are certain priorities that cannot be deferred. Assisting Canadians with disabilities is one of these. Indeed, even when we were in deficit, we took action. We have enriched the tax credit for infirm dependants, enhanced the medical expense credit, increased the child care expense deduction for children with disabilities and expanded eligibility for the disability tax credit.

Today we will do more. We will further enrich the amount for the infirm dependent tax credit from $2,386 to $3,500; we will similarly increase the supplement amount for the disability tax credit for children with severe disabilities from $2,941 to $3,500; and we will increase the amount for the disability tax credit from $4,293 to $6,000.

Mr. Speaker, in 1998, to recognize the increasing burden that many families bear as a result of an aging population, we introduced the Caregiver Credit. Today, effective January 1st, we will increase the amount for that credit from $2,386 to $3,500.

Mr. Speaker, in February we proposed to cut taxes by $58 billion over five years. Today, the measures we are announcing will increase that cut to $100 billion.

This plan delivers by far the largest tax cuts in Canadian history. But it is also balanced. It leaves the financial room to address priorities such as health care and education, the essential building blocks of a progressive society. It also leaves the Government with the capacity to deal with future priorities and unforeseen economic developments.

Flat Tax

Mr. Speaker, in our tax proposals, we set out what we will do and why. Let me now say what we will not do - and why not.

First, we will not spend 110 cents of every dollar forecast. We will not exhaust every penny of surplus on tax cuts, leaving virtually nothing to fund core services. Nor will we base our actions on the rosiest of predictions. Sound financial management allows for the possibility of rain even in the sunniest of forecasts. In the past, governments got into real trouble by forgetting that lesson.

Our approach has served Canadians well: it has taken us from massive deficit to surplus, from rising to declining debt, from credit downgrade to credit upgrade. So to those who say we should gamble with taxpayers' money, we say no. We will not turn the nation's finances into a day at the track.

Second, we will not bring in the 17 per cent flat tax. We will not bring it in tomorrow and we will not bring it in five years from now. It is untried and it is unfair. It is unfair today, and five years won't make it any fairer. It is unfair because it gives someone earning a million dollars a year a tax cut of $130,000 compared to $500 for someone earning $25,000. It is unfair because it would give the top one per cent of all income earners $8 billion in tax cuts – that's almost 30 per cent of the entire flat tax package. It is unfair even under the 17-25 interim flat tax plan because that would still give the same top one per cent of earners 16 per cent of the total tax relief provided.

These results do not occur by accident. They are the intended effects of those who propose the flat tax. It is a clear reflection of the kind of society they would build. It would deliver to upper-income earners tax relief that rightly belongs to the middle class, and that's wrong.

It rejects the progressive tax system – one based on an individual's ability to pay, and that's wrong.

It offends the basic compact we have made with one another as Canadians – to build this country together, and that's wrong.

Conclusion

Mr. Speaker, today we have spoken of the choices we face as a country. Of the need for a vision that is broad enough to encompass all Canadians. A vision that shares opportunity across all regions and all income levels. A vision that rests on our mutual commitment as citizens of this remarkable country.

Mr. Speaker, for 133 years, we have proven that we could build a nation of opportunity, and still provide for those who cannot provide for themselves; that we didn't have to settle for less, because Canada was capable of more.

We have always understood that true community only comes from working together, in common cause and shared purpose – by doing what our heart says is right in a way that our head says will work.

Mr. Speaker, we cannot subscribe to the view that it is everybody for themselves, that it is winner take all. How can we fulfil our promise as a nation if our vision of the national interest is constricted by self-interest?

Mr. Speaker, Canada stands at the threshold of its greatest era. Together, we have come far and done much. But we know that prosperity is not a quiet cove where we rest, it is a journey we must continually chart. Every generation of Canadians has understood the responsibility – to take what is passed to them and make of it something better.

Today, that responsibility falls to us – to translate the potential we have into the prosperity we seek. To build a Canada where our people feel there is nowhere else they would rather be, because there is nowhere else they can achieve so much.

That is the challenge we must meet. That is the challenge we will meet.

1

Overview

Introduction

Canada enters the 21st century with greater resources and more choices than it has had in decades. The choices we make will mirror our values as a society and our obligations to each other as citizens.

The federal government has been following a plan to restore the nation's finances, invest in key social areas, build a modern, innovative economy, and improve the quality of life for all Canadians.

The plan is paying off.

The deficit is eliminated, the debt burden is falling, unemployment is low and after-tax income is increasing.

With a strong economy and budgetary surpluses, the Government has been able to cut taxes and invest in Canadians' key priorities of health and education.

This Economic Statement sets out the next steps in the four-part plan to ensure better lives for Canadians.

The Government's Four-Part Plan

It invests in the social fabric of this country, particularly in health care and other areas that reflect the responsibility Canadians feel to one another, by:

- delivering the $21.1 billion in federal funding to strengthen Canada's treasured system of universal health care as agreed to by the Prime Minister and premiers in September;
- providing $2.2 billion to the provinces and territories for services for the youngest of our children; and
- committing, in conjunction with Budget 2000, over $1.2 billion to a cleaner, healthier environment.

It strengthens education, research and innovation, the surest paths to success in a knowledge economy, by:

- providing $500 million in new funding to the Canada Foundation for Innovation to help create world-class universities and research facilities, and for international research;
- adding $100 million over five years to support research for the knowledge economy; and
- doubling the education amount that post-secondary students can claim to help them offset the cost of books, lodging and other expenses. This measure alone will provide about $1 billion to 1 million students over the next five years.

It enhances our commitment to debt reduction by:

- paying down at least $10 billion in debt this fiscal year alone;
- committing to announce each fall an amount for that year's debt paydown in addition to the $3-billion Contingency Reserve – depending upon the economic circumstances of the day; and
- lowering Canada's debt-to-GDP ratio – the debt in relation to the size of the overall economy – which should fall to about 40 per cent within five years.

It reduces taxes faster and further than set out in Budget 2000 because Canadians deserve to keep more of what they earn, by:

- providing substantial immediate tax reductions that grow over time;
- providing one-time relief for heating expenses to help low- and modest-income Canadians;
- lowering personal income tax rates for all Canadians effective January 2001, in less than two and a half months; and
- reducing Canadians' average personal income tax burden 21 per cent as a result of measures in Budget 2000 and this Statement. For families with children, it will be even lower – 27 per cent.

In total, the tax measures in this Statement, combined with those in Budget 2000, will provide $100 billion of cumulative tax relief by 2004-05.

A Strong Economy

Canada is in the midst of a period of very strong economic performance.

In fact, the second quarter of 2000 marked the 20th consecutive quarter of growth – the longest uninterrupted economic expansion in more than three decades.

This growth has created close to 1.5 million new jobs in the past four years, of which 9 out of 10 have been full-time.

In the last 12 months, the Canadian economy has created more than 360,000 new jobs. The unemployment rate has fallen to 6.8 per cent, approaching its lowest level in 24 years.

As a result, for the third year in a row, Canada has the best job creation performance of any Group of Seven country.

Sound Financial Management

Canada is in a period of budgetary surpluses.

For the first time in half a century, the federal government has recorded three consecutive surpluses:

- $3.5 billion in 1997-1998;
- $2.9 billion in 1998-1999; and
- $12.3 billion, the largest in our history, in 1999-2000.

All of these surpluses have been used to pay down the national debt. As a result, the debt has declined by $18.7 billion.

Based on the average private sector forecasts, and after adjusting for the Contingency Reserve, economic prudence, the agreements on health renewal and early childhood development, and employment insurance changes, the surplus for planning purposes is:

- $12.2 billion for 2000-2001;
- $10.9 billion for 2001-2002;
- $11.5 billion for 2002-2003;
- $11.3 billion for 2003-2004;
- $7.0 billion for 2004-2005; and
- $10.7 billion for 2005-2006,

or an average of $10.6 billion per year.

Paying Down the Debt

With this Statement, the Government is adding an important new element to its Debt Repayment Plan.

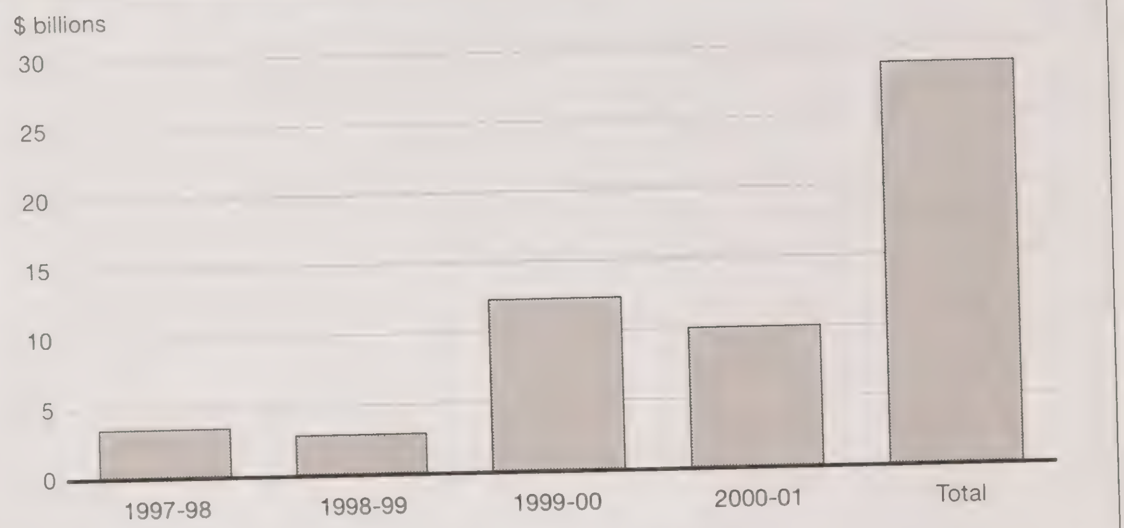
It will continue to annually set aside $3 billion as a Contingency Reserve. But from now on, each fall it will announce whether more of that year's surplus should be dedicated to debt paydown, depending on the economic and fiscal circumstances at the time.

The Government is committing in this Economic Statement to pay down at least $10 billion of debt for fiscal year 2000-2001. Just as individual Canadians pay down their credit cards when times are better, governments must do the same.

That will bring the total debt paydown over the last four years to $28.7 billion; about $1.7 billion annually, which otherwise would have gone to pay interest on the debt, can be used for Canadians' highest priorities, such as health care, education and lower taxes.

The Debt Repayment Plan and sustained economic growth will ensure that the debt-to-GDP ratio continues to fall rapidly. From a post-war peak of 71.2 per cent in 1995-96, the debt-to-GDP ratio dropped to 58.9 per cent in 1999-2000, and should fall to about 40 per cent by 2005-2006.

Debt Repayment



Investing in Canada's Social Fabric

Universal health care and quality education are Canadians' highest priorities.

That is why the Government has committed $23.4 billion – one of the largest single investments by any Canadian government – to improving health care and increasing support for early childhood development.

Of the $23.4-billion funding commitment:

- $21.1 billion over five years will be added to the Canada Health and Social Transfer (CHST) so that provinces and territories can enhance funding for health, post-secondary education and social assistance and services.
  - Of this, $2.2 billion is provided to support early childhood development so children enter school ready and able to learn.
- $1 billion will be provided to provinces and territories for the purchase of modern diagnostic and treatment equipment like MRI machines and CAT scanners.
- $500 million will be provided to develop modern information technology in the health care sector.

- $800 million will be dedicated to speeding up access to the most recent innovations in the front line services provided by family physicians.

In addition, all governments have made a commitment to account to Canadians for the way their tax dollars are being spent in the health care system.

These new federal funding commitments build on the $14-billion increase to the CHST already announced in the 1999 and 2000 budgets.

Reducing Taxes for Canadians

In setting out a five-year, $58-billion tax relief plan in last February's budget, the Government said it would go further and faster as resources permit.

With the strong growth of the economy and the resulting fiscal surpluses, the Government is now in a position to deliver on that promise.

The tax measures in this Economic Statement, combined with those in the 2000 budget, will provide $100 billion of cumulative tax relief by 2004-05. And Canadians' average personal income tax burden will be 21 per cent less, and even lower for families with children – 27 per cent.

Not only are the tax measures in this Statement delivered much faster than outlined in the last budget, they also go further. All personal income tax rates will be lowered effective January 1, 2001.

That means, in less than two and a half months:

- The 17-per-cent rate will be reduced to 16 per cent.
- The 24-per-cent middle tax rate – reduced from 26 per cent in July 2000 – will be reduced further to 22 per cent.
- The 29-per-cent top tax rate will be reduced to 26 per cent on incomes between about $60,000 and $100,000.
- The deficit-reduction surtax will be eliminated.

Other measures that provide additional assistance for those who need it most are:

- Effective July 2001, the Canada Child Tax Benefit for low- and middle-income Canadians will be raised, with maximum benefits for the first child rising to more than $2,500 in less than four years.
- Effective January 2001, the disability tax credit amount will be raised to $6,000 from $4,293.
- Effective January 2001, credit amounts for caregivers of dependent relatives who are elderly, infirm or disabled will be raised to $3,500 from $2,386.

One-Time Relief for Heating Expenses

The Government is concerned about the impact of rising energy prices on home-heating costs. Accordingly, in early 2001, it will provide one-time relief for heating expenses to help low- and modest-income Canadians. This relief will be $125 per individual or $250 per family. The total cost of this measure will be $1.3 billion.

Combined with measures in Budget 2000, including the restoration of full indexation of the personal income tax system to protect taxpayers against inflation, the tax cuts in the Economic Statement provide substantial immediate tax reductions that will grow over time.

Here are some examples:

- A two-earner family of four has a combined income of $60,000. Last year, they paid about $5,700 in federal income tax. Next year, their taxes will fall by over $1,000 – a first-year tax cut of 18 per cent. In less than four years, their taxes will fall by 34 per cent.
- A single mother with one child earns $25,000 a year. Last year, she received a net benefit of over $1,400. Next year, she will receive an additional $800, for a total benefit of $2,200.
- A one-earner family with two children makes $40,000. Last year, they paid about $3,325 in federal tax. Next year, they will pay about $1,100 less – a reduction of 32 per cent. In less than four years, this family will see their taxes fall by 59 per cent.
- A single father with one child earns $33,000 a year. Last year, he paid about $900 in federal taxes. Next year, he will pay no net federal tax whatsoever.

Tax Relief to Encourage Entrepreneurship, Jobs and Growth

Building on measures in the last budget, the new tax package in this Economic Statement proposes a number of tax initiatives to encourage entrepreneurship and innovation.

Effective today:

- the capital gains inclusion rate will be cut further from two-thirds to one-half; and
- tax-free rollovers will be expanded and made available to more businesses. The size of eligible investment will be increased to $2 million from $500,000 and the size of small businesses eligible for the rollover will be increased to $50 million from $10 million.

To encourage jobs and growth and keep Canadian firms competitive:

- a legislated timetable will be provided for accelerating corporate income tax cuts from 28 per cent to 21 per cent, with a one-point reduction in 2001 followed by a two-point cut in each of the following three years; and

- effective January 1, 2001, self-employed individuals will be allowed to deduct the portion of Canada Pension Plan and Quebec Pension Plan contributions that represents the employer's share.

Strengthening Education, Research and Innovation

Investing in education, research and innovation is the most significant investment Canadians can make to foster success in the new economy.

Building on the investments announced in the 2000 budget, this Economic Statement proposes to:

- help post-secondary students cope with the rising costs of education by doubling the amount on which the education credit is based to $400 a month from $200 for full-time students, and to $120 from $60 for part-time students;
- help create world-class research facilities in universities and hospitals by providing $400 million of new funding to the Canada Foundation for Innovation (CFI) for operating costs of research;
- provide an additional $100 million to the CFI to support the participation of Canadian researchers in major international research projects;
- authorize the CFI to use $100 million of funds provided in Budget 2000 to support 100 per cent of the capital costs in Canada for collaborative research projects between Canadian universities and leading facilities in other countries; and
- provide a special allocation of $100 million over five years to the Social Sciences and Humanities Research Council to support research on the knowledge economy including management skills, educational requirements and lifelong learning.

In addition, the CFI is allocating $250 million of funds provided in Budget 2000 for infrastructure awards to Canada Research Chairs, with no matching funding requirement for Chairs at smaller universities.

Investing in a Clean Environment

Protecting and improving our environment is a major priority of the Government.

This Economic Statement provides an investment of $500 million to fund the Government's recent commitment to address key environmental challenges, such as climate change and air pollution.

Together with the $700 million for new environmental initiatives announced in the last budget, the Government's total investment in environmental measures this year is $1.2 billion.

Summary

Since coming to office, the Government has been committed to sound economic and financial management.

This enabled it to eliminate a $42-billion deficit in just four years and begin paying down Canada's debt, and has been a major factor in allowing the Canadian economy to grow beyond private sector forecast expectations.

From the time the Government balanced the books in 1997-98, and including the measures in this Economic Statement, close to three-quarters of all new spending has been devoted to health care, children and education.

By the end of 2000-01, it will have paid down $28.7 billion in debt.

Taken together, the Government's tax measures since the elimination of the deficit will reduce average personal income taxes for Canadians by 27 per cent. For families with children, the tax reduction will be substantially greater – 35 per cent.

Summary of Debt Reduction, Tax Cuts and Spending Initiatives

- Table 1.1 presents the fiscal impact of the debt reduction, tax cut and spending initiatives proposed in this Statement, Table 1.2 presents the fiscal impact of the measures proposed before this Statement, while Table 1.3 shows the total fiscal impact of all the measures proposed since the 2000 budget. The cost of the proposed actions since the 2000 budget amounts to $15.1 billion in 2000-01, $10.6 billion in 2001-02 and $13.2 billion in 2002-03.

- The cumulative cost of the measures over the three years from 2000-01 to 2002-03 amounts to $38.8 billion. Of this amount, $11.5 billion is for spending initiatives, of which $8.3 billion is for the agreements on health renewal and early childhood development, and $1.3 billion for the one-time relief for heating expenses. The cost of the tax cuts over the three years, including the reduction in employment insurance premium rates for 2001, amounts to $17.3 billion, while $10 billion has been committed to debt reduction in 2000-01.

Table 1.1
Spending and Tax Initiatives Proposed in the 2000 Statement

	2000-01	2001-02	2002-03
	(millions of dollars)		
Spending initiatives proposed in this Statement			
Relief for heating expenses	1,345		
Investing in a clean environment		100	100
Canada Foundation for Innovation	500		
Social Sciences and Humanities Research Council		20	20
Total	1,845	120	120
Tax relief proposed in this Statement			
Personal income tax relief	1,455	6,265	7,140
Canada Child Tax Benefit		260	355
Corporate income tax relief		175	1,245
Total	1,455	6,700	8,740
Debt reduction	10,000		
Total spending, tax relief and debt reduction proposed in this Statement	13,300	6,820	8,860

Table 1.2
Spending and Tax Initiatives Proposed Before the 2000 Statement

	2000-01	2001-02	2002-03
	(millions of dollars)		
Agreements on health renewal and early childhood development			
CHST: general cash increase		2,500	3,200
CHST: early childhood development		300	400
Medical Equipment Fund	1,000		
Health information technology	500		
Health Transition Fund for primary care		200	200
Employment insurance			
Premium rate reduction for 2001	100	300	
Benefit enhancements	200	450	500
Total	1,800	3,750	4,300

Table 1.3
Spending Initiatives, Tax Relief and Debt Reduction Proposed Since the 2000 Budget, Including the 2000 Statement

	2000-01	2001-02	2002-03	Total
	(millions of dollars)			
Spending initiatives				
Improving the quality of life for Canadians and their children				
Canada Health and Social Transfer		2,800	3,600	6,400
Other health initiatives	1,500	200	200	1,900
Employment insurance benefits	200	450	500	1,150
Relief for heating expenses	1,345			1,345
Total	3,045	3,450	4,300	10,795
Making Canada's economy more innovative				
Investing in research and innovation	500	20	20	540
Investing in a clean environment		100	100	200
Total	500	120	120	740
Total	**3,545**	**3,570**	**4,420**	**11,535**
Tax initiatives				
Personal income tax relief	1,455	6,265	7,140	14,860
Canada Child Tax Benefit		260	355	615
Corporate income tax relief		175	1,245	1,420
Employment insurance premiums	100	300		400
Total	**1,555**	**7,000**	**8,740**	**17,295**
Debt reduction	10,000			10,000
Total spending and tax initiatives since the 2000 budget, including the 2000 Statement	15,100	10,570	13,160	38,830

Fiscal Performance and Outlook to 2002-03

- Table 1.4 presents the actual fiscal outcomes for 1997-98 to 1999-2000 and the fiscal outlook to 2002-03, taking into account the debt reduction, tax cuts and spending initiatives announced since the 2000 budget, including measures announced in this Statement.

Table 1.4
Summary Statement of Transactions
The Two-Year Planning Horizon

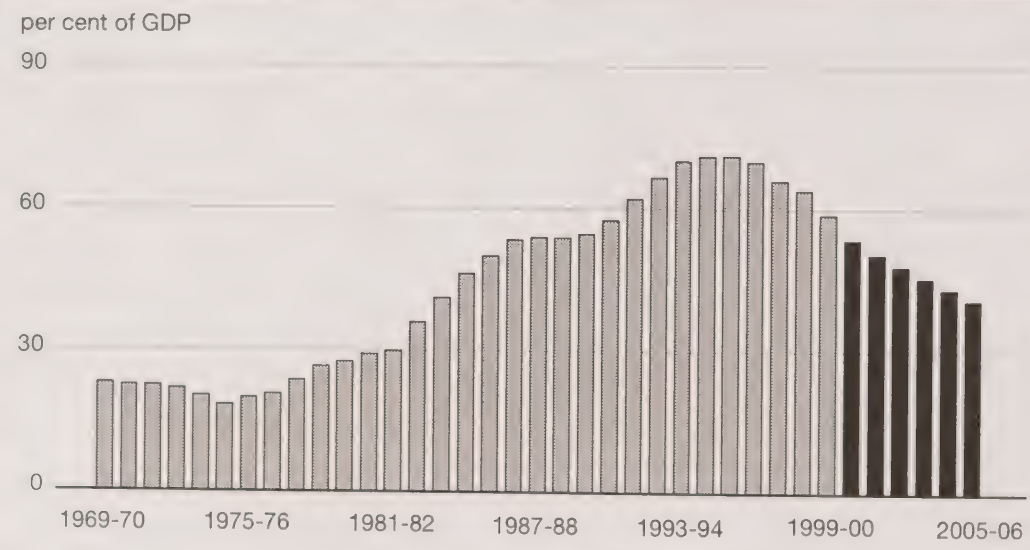
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
			(billions of dollars)			
Budgetary transactions						
Revenues	153.2	155.7	165.7	173.7	174.5	178.4
Program spending	-108.8	-111.4	-111.8	-119.7	-124.6	-129.6
Public debt charges	-40.9	-41.4	-41.6	-42.2	-41.7	-41.2
Budgetary surplus	3.5	2.9	12.3	11.9	8.3	7.6
Prudence						
Economic prudence					1.0	2.0
Contingency Reserve					3.0	3.0
Total					4.0	5.0
Debt reduction	3.5	2.9	12.3	10.0		
Remaining balance	–	–	–	**1.9**	**4.3**	**2.6**
Net public debt						
Balanced budget (no additional debt reduction post 2000-01)	579.8	576.8	564.5	554.5	554.5	554.5
Contingency Reserve applied to debt	579.8	576.8	564.5	554.5	551.5	548.5
Non-budgetary transactions	9.3	8.6	2.3	-7.0	-3.0	-1.5
Financial requirements/source[1]	12.7	11.5	14.6	3.0	-3.0	-1.5
Per cent of GDP						
Budgetary revenues	17.4	17.3	17.3	16.8	16.0	15.6
Program spending	12.4	12.4	11.7	11.6	11.4	11.4
Public debt charges	4.7	4.6	4.3	4.1	3.8	3.6
Total expenditures	17.1	17.0	16.0	15.6	15.2	15.0
Net public debt						
Balanced budget (no additional debt reduction post 2000-01)	66.0	64.0	58.9	53.6	50.8	48.6
Contingency Reserve applied to debt	66.0	64.0	58.9	53.6	50.5	48.0

Note: Numbers may not add due to rounding.
[1] Assumes balanced budget in 2001-02 and 2002-03.

Debt Repayment

- The Debt Repayment Plan, combined with sustained economic growth, has put the debt-to-GDP ratio on a permanent downward track. Based on the average private sector economic projections and assuming a minimum annual debt paydown of $3 billion per year (equal to the Contingency Reserve), the debt-to-GDP ratio is projected to fall from 58.9 per cent in 1999-2000 to about 40 per cent by 2005-06 – down from its peak of 71.2 per cent in 1995-96. This would take the ratio back to where it was in 1983-84.
- With this debt paydown, the interest ratio – public debt charges as a share of budgetary revenues – falls to about 23 per cent by 2002-03, down from the peak of 36 per cent in 1995-96. The lower the ratio, the more flexibility the Government has to address key priorities of Canadians.

Federal Debt-to-GDP Ratio
(Public Accounts Basis)



Remaining Balance

- The federal government is committed to balanced budgets or better in 2000-01, 2001-02 and 2002-03. With the surpluses achieved in 1997-98, 1998-99 and 1999-2000, this will make six consecutive years of balanced budgets or better.
- After incorporating the initiatives proposed since the 2000 budget and subtracting the additional debt paydown in 2000-01, the Contingency Reserve and economic prudence, there is a remaining budgetary balance of $1.9 billion in 2000-01, $4.3 billion in 2001-02 and $2.6 billion in 2002-03.
- These remaining balances will allow the Government in the future to consider other priority measures. They could be directed to further debt reduction, increasing the prudence, further tax cuts or increased spending in priority areas.

2

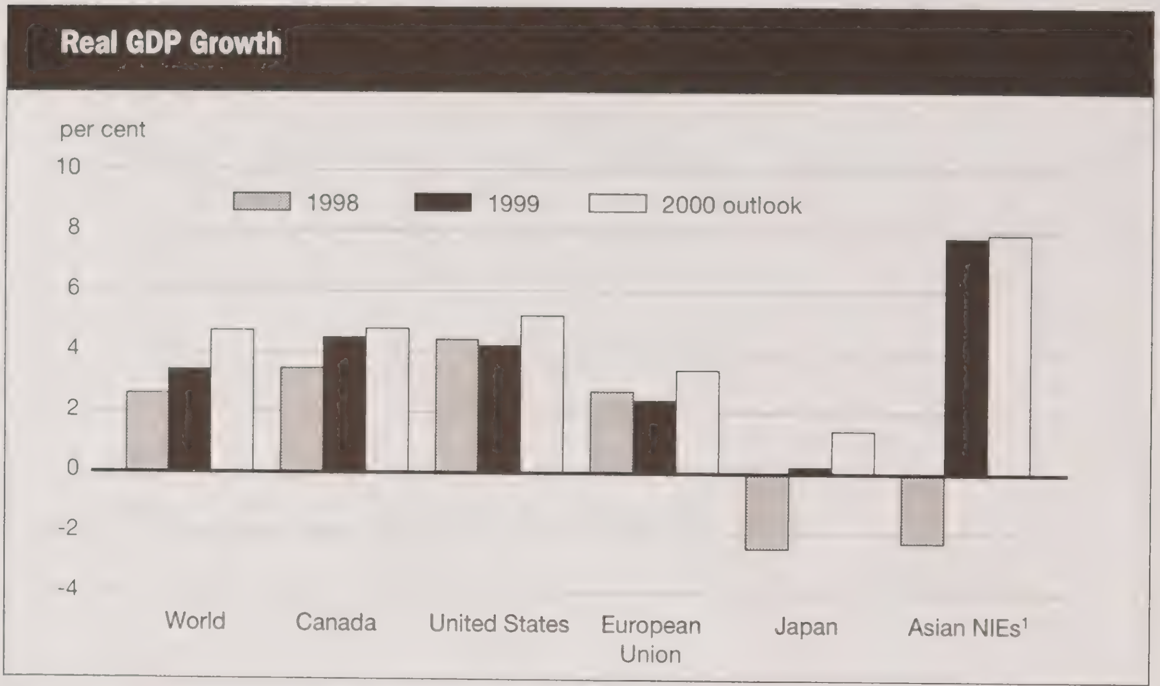
Canada's Recent Economic Developments and Outlook[1]

[1] Incorporates data available up to October 6, 2000.

Highlights

- *Real gross domestic product (GDP) grew 4.7 per cent in the second quarter of 2000, its fourth consecutive quarter of growth over 4 per cent and twentieth consecutive quarterly advance. This is the longest stretch of uninterrupted growth in over three decades.*
- *The rapid expansion of the information and communications technology sector is becoming an important engine of this economic growth.*
- *The Canadian economy has created close to 1.5 million net new jobs in the past four years, of which 9 out of 10 have been full-time.*
- *With strong investment spending, particularly in information and communications technology equipment, the Canadian economy is now beginning to experience better productivity growth (close to 2.5 per cent in the first half of 2000). Combined with strong job creation, these developments are now translating into stronger improvements in real income.*
- *While rising oil prices have pushed total inflation to near 2.5 per cent, core inflation has remained in the bottom of the 1 to 3 per cent target band.*
- *The current account has improved significantly, reaching a record high surplus in 2000. Canada's net foreign indebtedness as a share of GDP has declined to its lowest level in over 20 years.*
- *Private sector forecasters have revised strongly upwards their forecasts for economic growth in Canada to 4.7 per cent for 2000 and 3.5 per cent for 2001.*
- *The International Monetary Fund (IMF) expects Canada to be second in the Group of Seven (G-7) in real output growth and to lead in employment growth in 2000.*

The global economy is expanding at a healthy pace

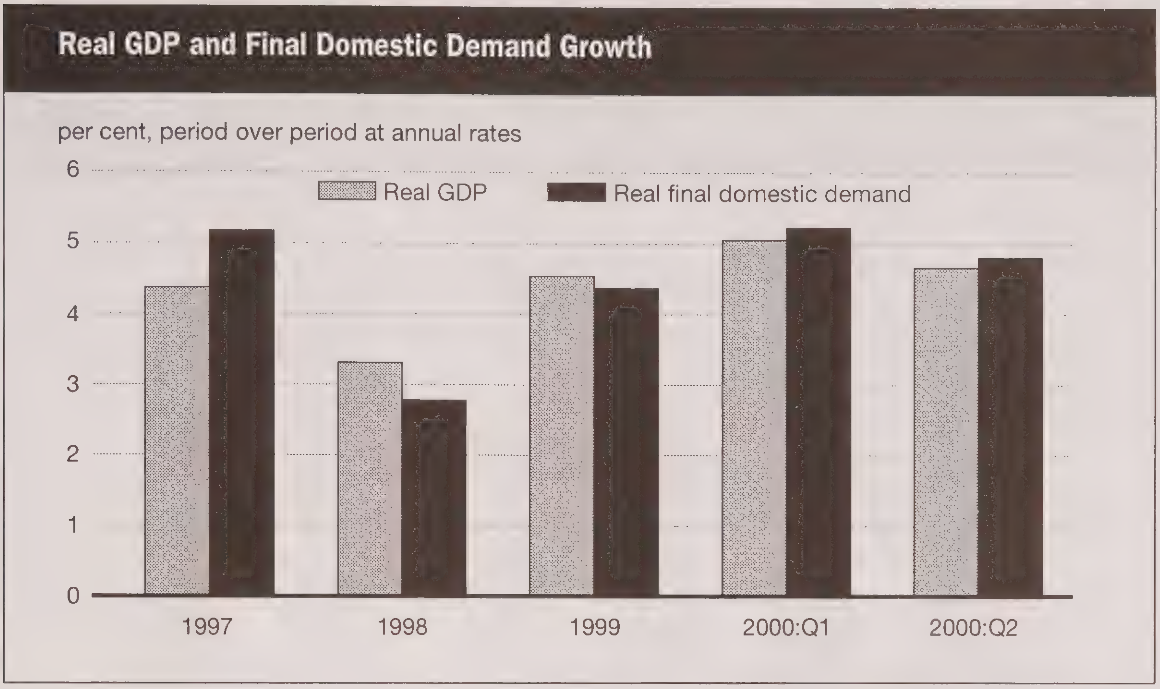


[1] Newly industrialized economies. Asian NIEs include Hong Kong, South Korea, Singapore and Taiwan.

Source: IMF, *World Economic Outlook*, September 2000.

- Global economic conditions have continued to improve substantially in 2000.
- According to the IMF, growth in world economic output is expected to rise to 4.7 per cent in 2000, up from 3.4 per cent in 1999. While a strong U.S. economy has continued to lead global growth, positive signs are emerging of firming growth worldwide.
- After a moderate slowing in growth in 1999, growth of European Union economies is expected to strengthen significantly, while Japan is expected to continue its recovery from a sharp decline in 1998. At the same time, growth in the newly industrialized Asian economies has returned to its previous rapid pace.

Canadian economic growth remains strong

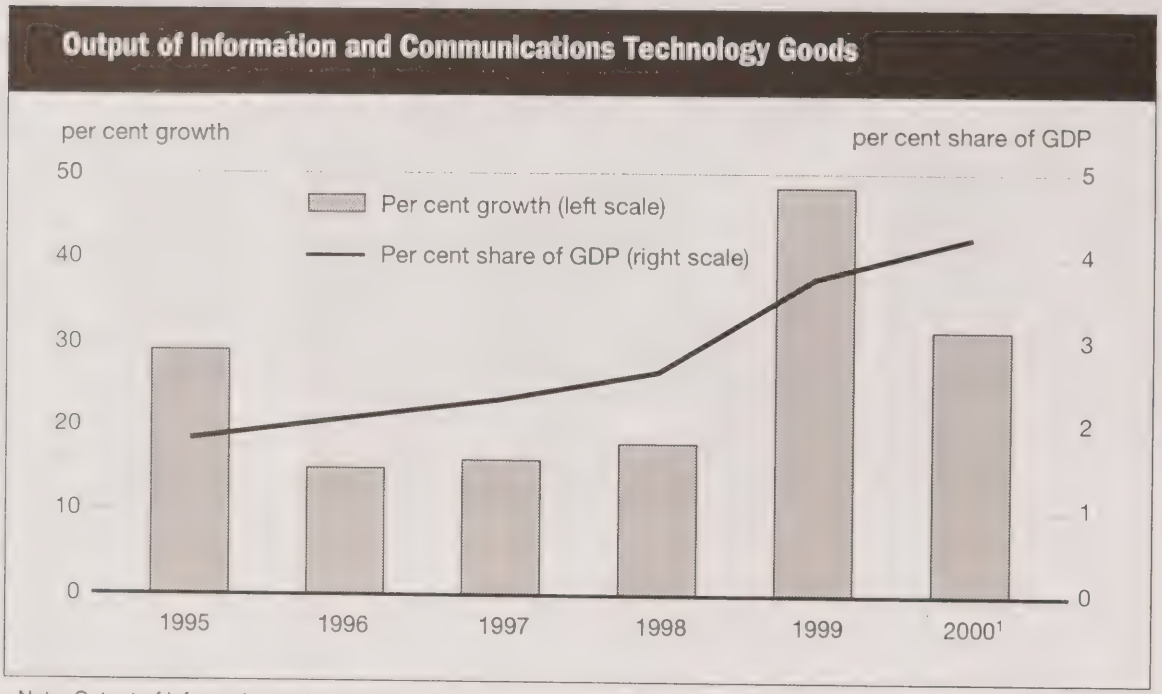


- This positive global performance has been mirrored in Canada, where the economy is continuing a period of solid growth, well balanced between strong domestic and external demand.

- Real GDP grew 4.7 per cent in the second quarter of 2000, its fourth consecutive quarter of growth over 4 per cent and twentieth consecutive quarterly advance. This is the longest stretch of uninterrupted growth in over three decades.

- Growth since the 2000 budget has significantly surpassed expectations, reflecting the stronger than expected growth in the U.S. and a strong expansion in domestic demand.

The "new economy" has become a key driver of economic growth. Production of information and communications technology goods is booming...



Note: Output of information and communications technology goods represents GDP on an expenditure basis for computers, office machinery, and telecommunications and home electronic equipment.

[1] Data up to 2000:Q2.

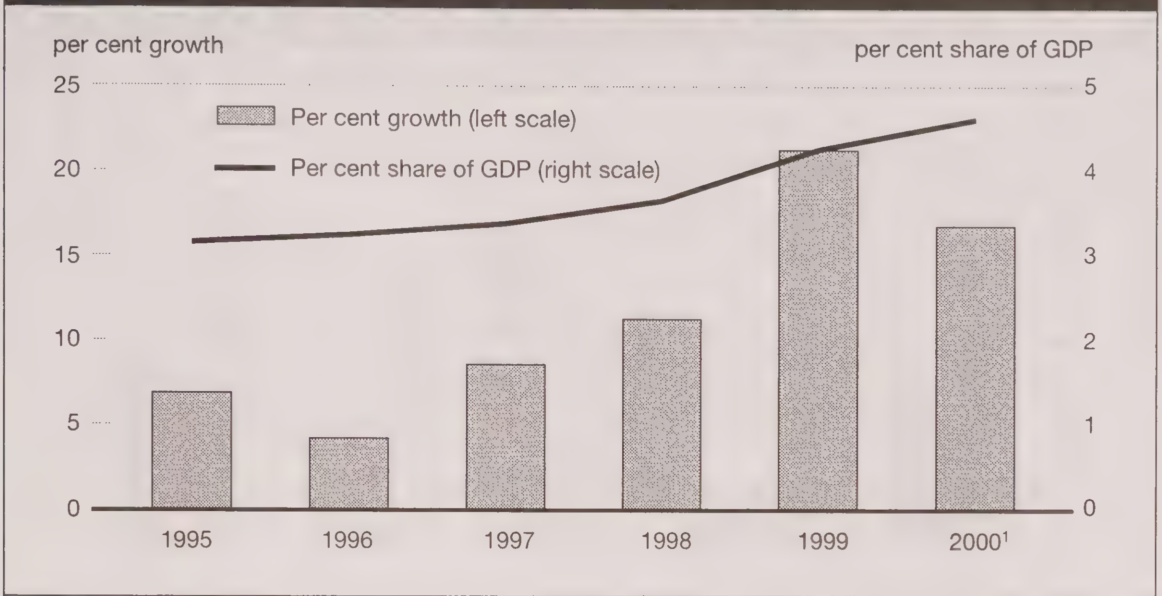
The "new economy" – economic activity characterized by innovation, rapid technological progress and a highly skilled workforce – is impacting all sectors of the Canadian economy. At the core of the "new economy" is the rapid diffusion of ideas made possible by the platforms and networks of advanced information and communications technologies (ICTs) – encompassing computers and peripherals, home electronics, telecommunications equipment and related activities, as well as computer and telecommunications services.

Overall GDP growth in recent years has been strongly impacted by rapid increases in output of ICT *goods* industries.

- Growth in this group of high technology goods has averaged about 26 per cent per year since 1995, easily making it one of the fastest growing areas of the economy.
- In 1999, output of ICT goods – which represented close to 4 per cent of GDP – contributed nearly 30 per cent of overall growth in the year.
- This has continued in 2000 – so far this year, ICT goods output has accounted for close to 21 per cent of growth in GDP.

...spilling over into related service industries

Output of Information and Communications Technology Service Industries



Note: Output of information and communications technology service industries represents GDP at factor cost of the computer service industry (including software development), telecommunications carriers, and cable television and broadcasting industries.

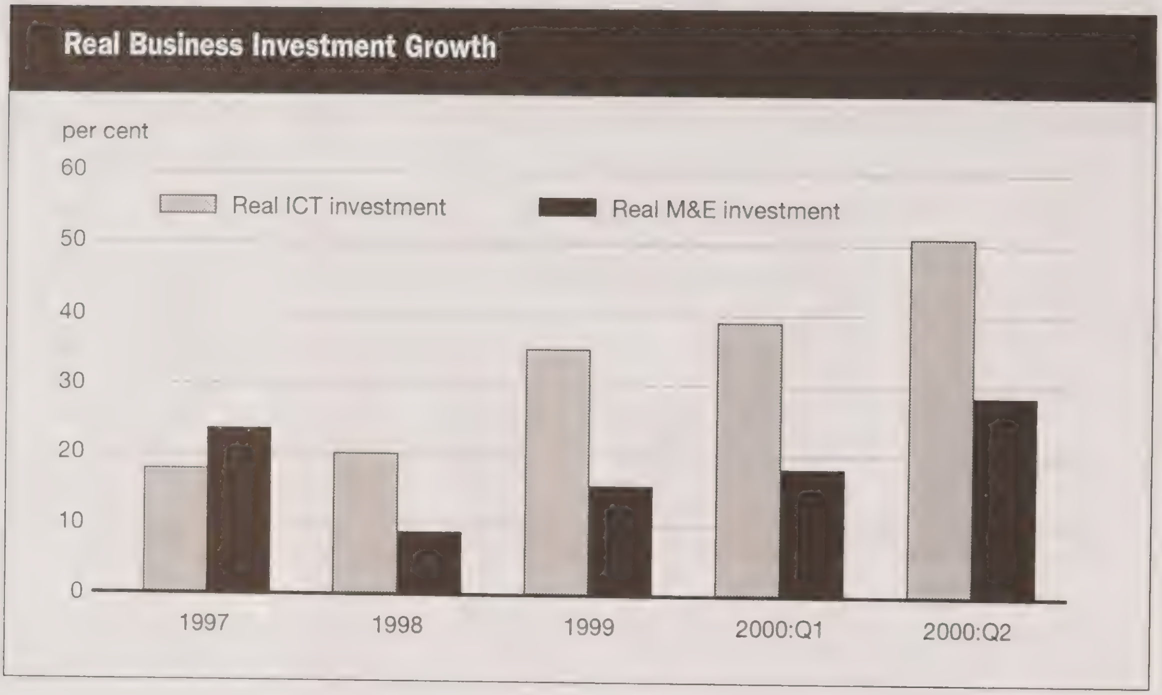
[1] Data up to 2000:Q2.

The massive growth in ICT goods output is boosting output and employment in ICT *service* industries such as the computer and telecommunications services industries.

- Output of the ICT service industries has been on a strong upward trend. Since 1995, growth has averaged 11.5 per cent per year, raising their share of GDP from just above 3 per cent in 1995 to 4.6 per cent today.

- The rapid output growth experienced by the ICT services sector has been matched by employment growth. For example, employment growth in the software industry has averaged over 18 per cent per year since 1995 – translating into close to 140,000 new jobs in this area over that period.

Investment is picking up strongly, led by spending on information and communications technologies

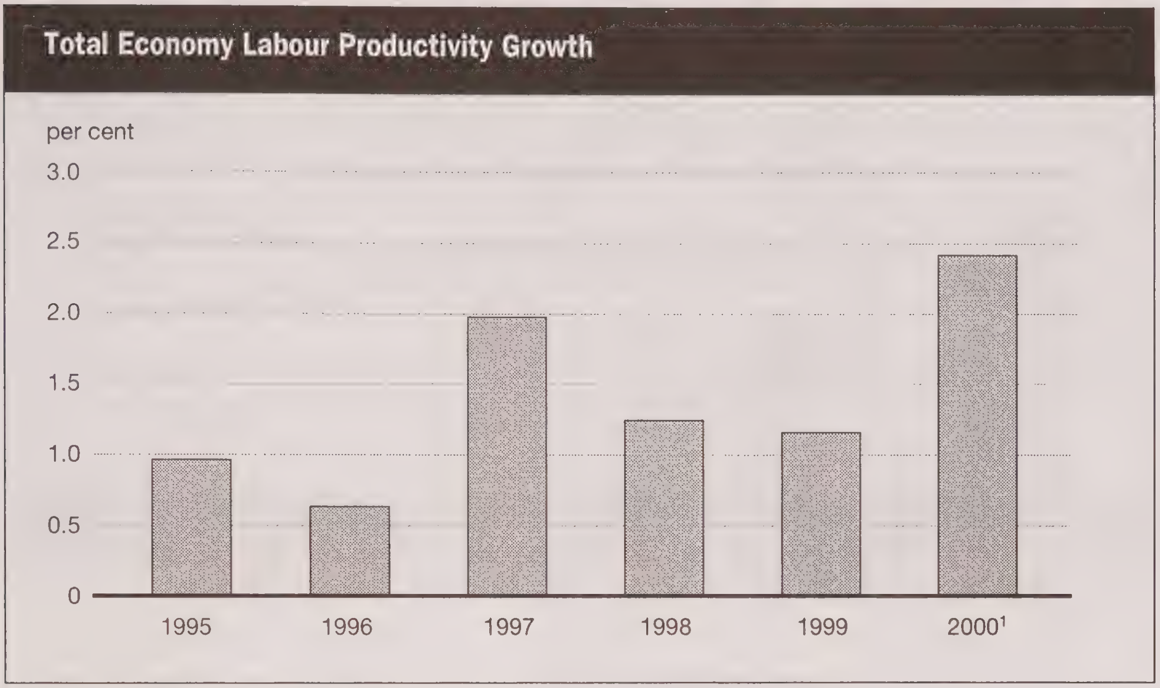


Throughout the Canadian economy, there has been a strong pickup in investment, led by spending on new information and communications technologies. Significant benefits of ICT investment spread throughout the economy through the adoption of these new technologies.

- Real investment in machinery and equipment (M&E), which is key to stronger productivity growth, has averaged a very strong 17.9 per cent growth per year since 1997.

- The rapid expansion of M&E investment is driven to a great extent by a remarkable increase in investment in ICT by all industries. In the second quarter of 2000 alone, investment in ICT grew at an annual rate of 51 per cent, boosting overall real M&E investment growth in that quarter to 28.5 per cent.

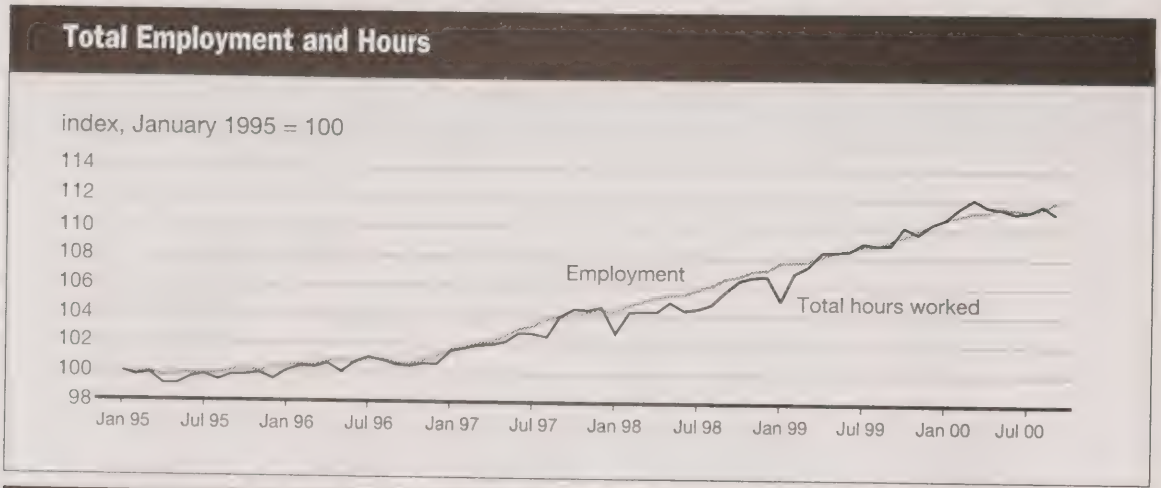
Productivity growth showed a sizeable pickup this year

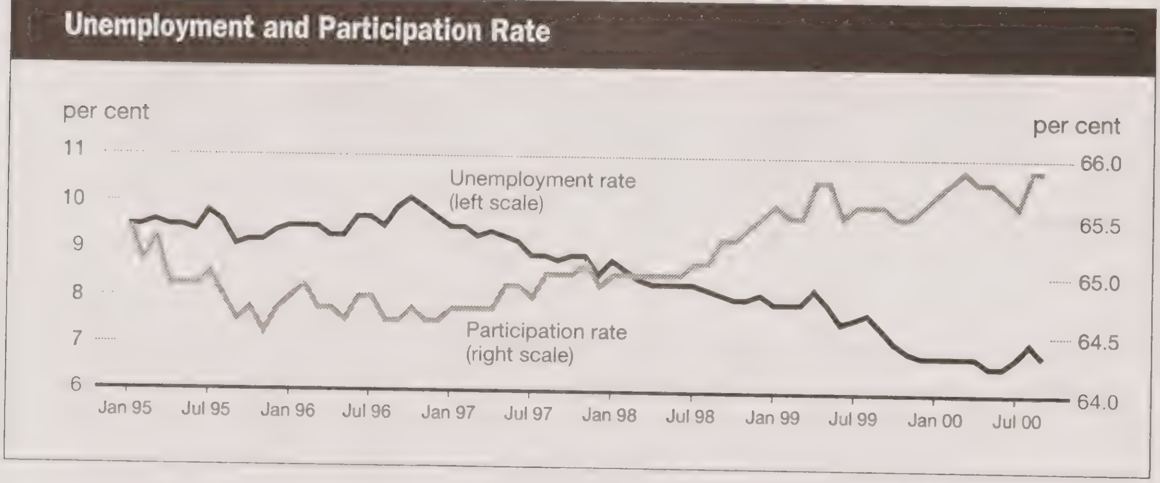


[1]Average growth in 2000:Q1 and 2000:Q2 at annual rates.

- As firms continue to substantially augment capacity and employ new technologies, this rapid expansion in real investment is translating into productivity gains.
- Indeed, productivity growth surged ahead by close to 2.5 per cent in the first half of this year on an annualized basis – almost twice the average annual growth rate of the last 10 years.

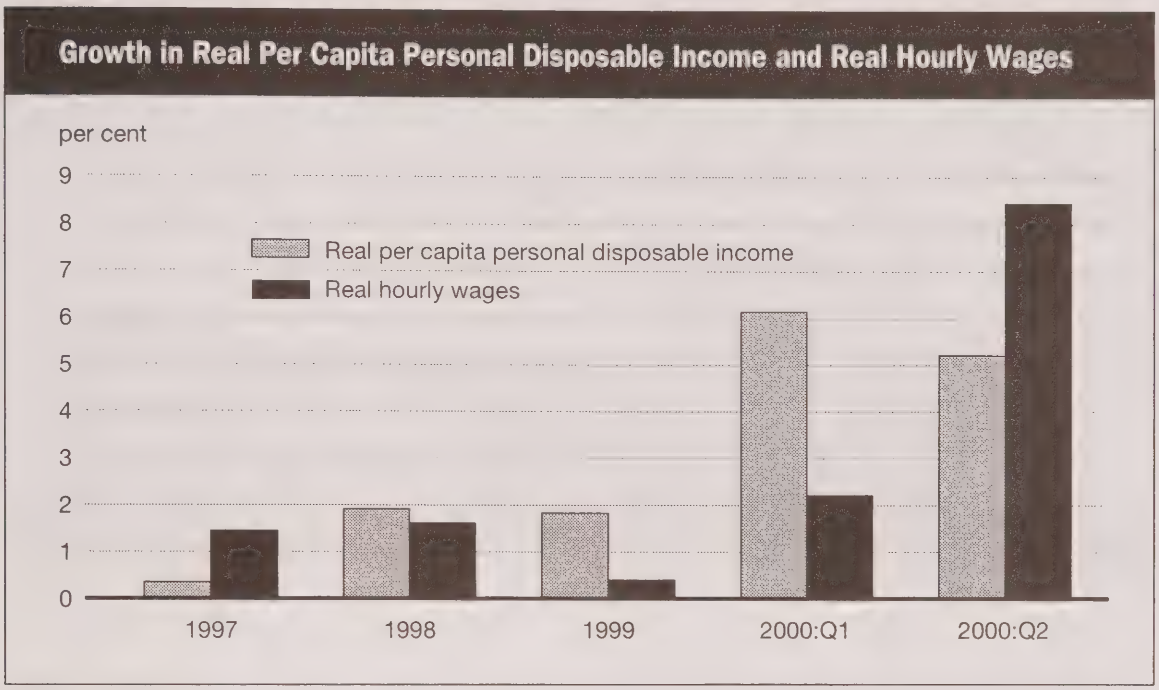
Labour market conditions remain healthy





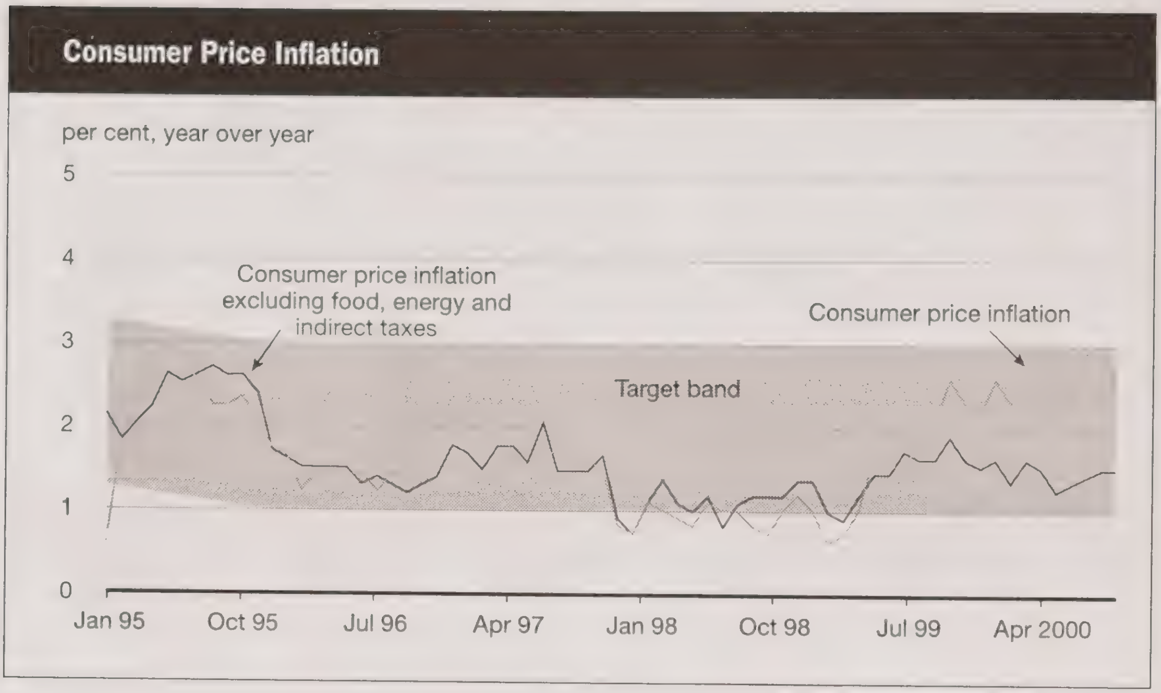
- Strong economic growth has led to solid gains in employment over the past four years.
- In the fall of 1996, Canada's unemployment rate stood at over 10 per cent and labour force participation was flat.
- By September of 2000, the unemployment rate had dropped to 6.8 per cent – just above a 24-year low of 6.6 per cent reached in May and June – and labour market participation had risen to an eight-year high. Over the last four years, close to 1.5 million net new jobs were created, with 9 out of 10 of these jobs full-time positions.
- A significant share of these new jobs have been in information and communications technology service industries. In particular, the software development industry has seen employment double since the fall of 1996.
- The modest uptick in the unemployment rate from the low reached in May and June entirely reflected increased labour force participation – itself a signal that solid employment growth and the rapid decline in the unemployment rate are translating into increased confidence on the part of individuals for their future employment prospects.

Employment and productivity growth are leading to higher real incomes



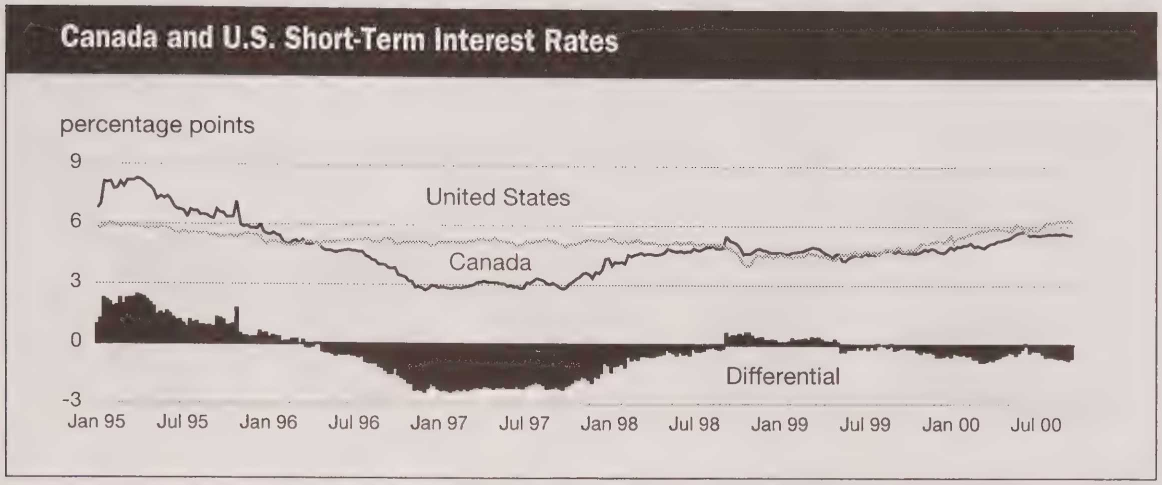
- Strong job creation and improving productivity growth are now translating into real income gains.
- Since 1996, real per capita personal disposable income has increased almost 8 per cent. Over the same period real hourly wages rose 6.5 per cent.
- In the second quarter of 2000, real per capita personal disposable income surged 5.2 per cent at annual rates after a gain of 6.1 per cent in the previous quarter. With this growth, the level of real per capita personal disposable income has now surpassed its previous peak attained in the first quarter of 1990.

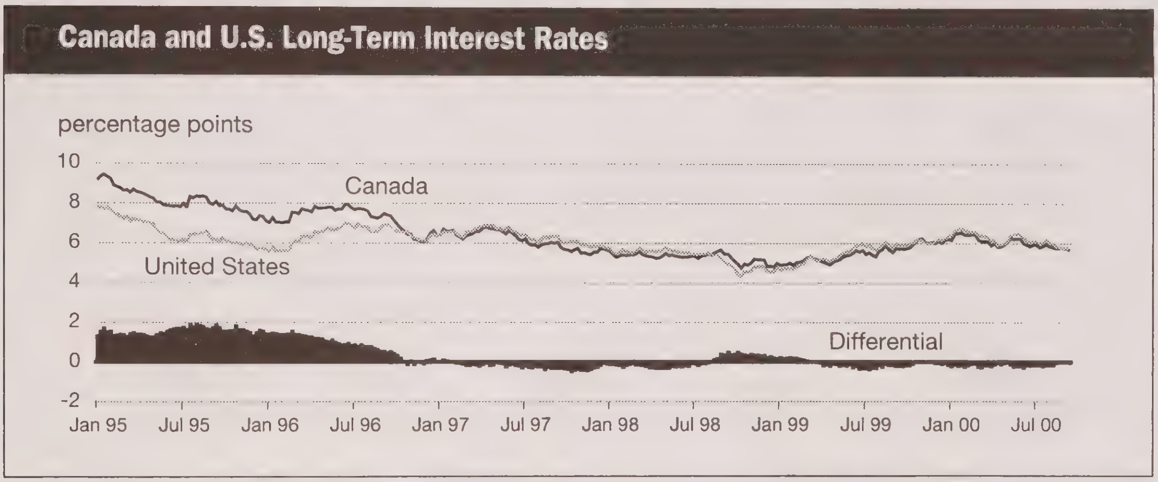
Inflation remains low and within the official target band



- Inflation remains well under control despite recent sharp increases in energy prices.
- Since mid-1999, consumer price inflation has risen to the top half of the official target band of 1 to 3 per cent, entirely due to the sharp rise in energy prices. Consumer price inflation excluding the impacts of food, energy and indirect taxes (or core inflation) has been at or under 2 per cent since late 1995.
- Well-entrenched low-inflation expectations and significant declines in oil consumption as a share of total output in Canada have made core inflation less vulnerable to oil price swings than in the past.

Interest rates remain low



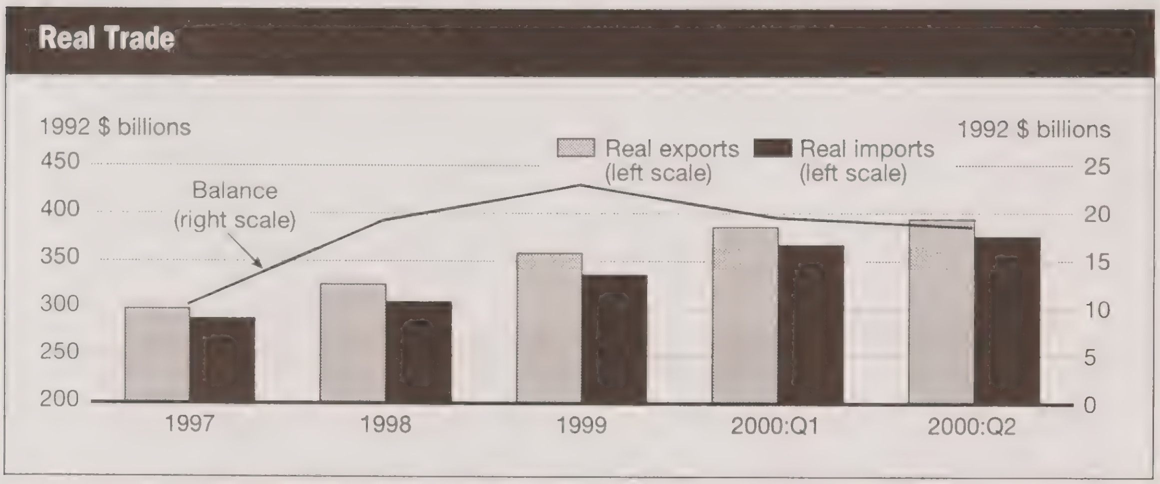


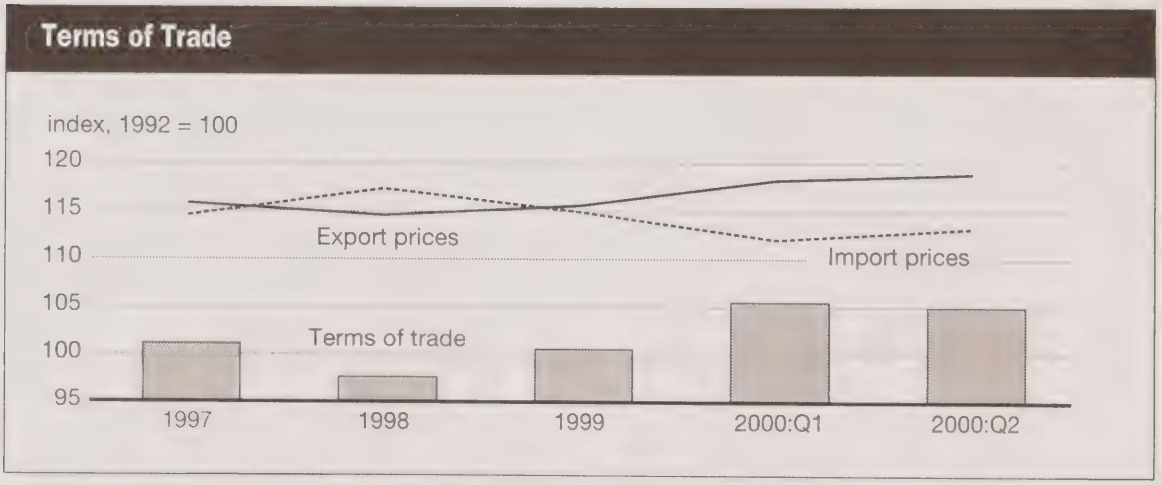
- Sustained low inflation and a strong fiscal performance in Canada have allowed interest rates to remain at historically low levels and below those prevailing in the United States.

- In response to stronger than expected global growth, interest rates have trended up modestly since early 1999. In May 2000, both the Federal Reserve Board and the Bank of Canada raised interest rates by 50 basis points, following 25-basis-point increases in November 1999 and February and March of 2000.

- Canadian rates are still substantially below the levels of five years ago, supporting a continuation of solid growth in economic activity.

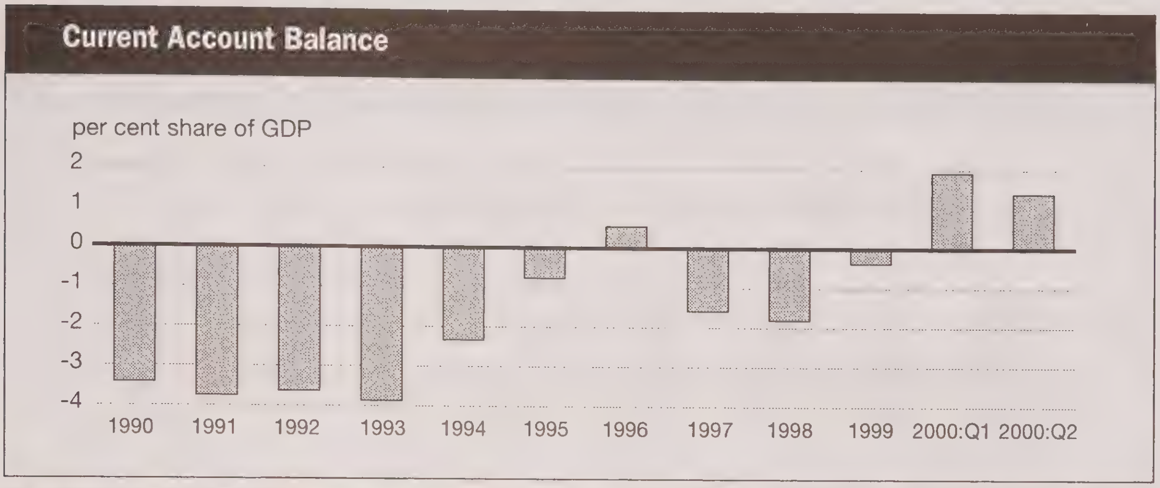
Trade performance remains strong

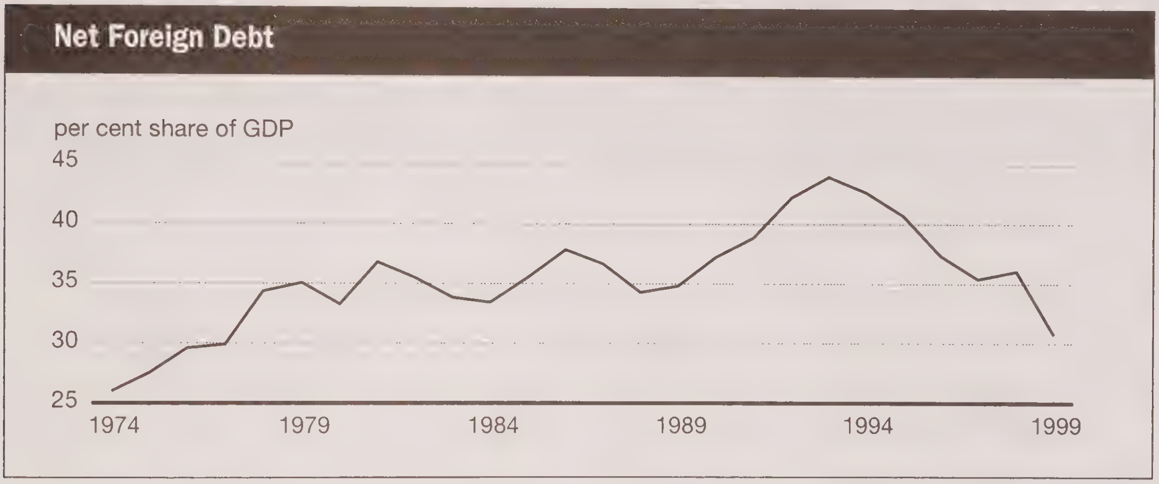




- Strengthening world demand, particularly very strong U.S. growth, has continued to push up exports, while sustained strong domestic demand has boosted imports.
- Led by exports of computer, electronic and telecommunications equipment, real exports grew by over 11 per cent in the first half of this year relative to the first half of 1999. Similarly, real imports in the first half of this year were about 14 per cent above their level one year ago, led by high technology machinery and equipment and consumer goods.
- Despite a modest decline recently, the real trade balance, at $18.5 billion in the first half of this year, remains well above its average in the 1990s.
- Improvements in the terms of trade since early 1999 have also contributed positively to the overall trade surplus, as stronger world growth has led to higher prices for commodity exports. At the same time, the rising share of high technology goods (with falling prices) in imports has pushed down average import prices.

The current account is in surplus





- The combination of improved terms of trade and a positive real trade balance has translated into a substantial increase in the nominal trade surplus and, with it, a large improvement in the current account balance.
- After reaching a deficit of almost 3 per cent of GDP in the third quarter of 1997, the current account has improved dramatically, moving into surplus, averaging 1.7 per cent of GDP ($16.9 billion) in the first half of this year.
- The trend improvement in the current account has allowed Canadians' net debt to foreigners, as a percentage of GDP, to fall to 31 per cent, the lowest level in over 20 years.

Favourable global economic prospects to support growth in Canada

Global Outlook for Real GDP Growth

	1999	2000	2001
		(per cent)	
World	3.4	4.7	4.2
Japan	0.2	1.4	1.8
European Union	2.4	3.4	3.3
Germany	1.6	2.9	3.3
France	2.9	3.5	3.5
United Kingdom	2.1	3.1	2.8
Italy	1.4	3.1	3.0

Source: IMF, *World Economic Outlook*, September 2000.

- The global economic outlook has improved significantly since the beginning of the year. According to the IMF's fall forecast, global growth is now expected to be 4.7 per cent in 2000 and 4.2 per cent in 2001, up from 4.2 and 3.9 per cent, respectively, in the spring outlook.
- This more favourable outlook for 2000 reflects upward revisions for most regions, including the emerging economies of Asia, transition economies and industrialized countries, particularly the U.S., Italy and Japan.
- Europe's growth outlook has also been revised up over the short term, averaging 3.4 per cent in 2000.

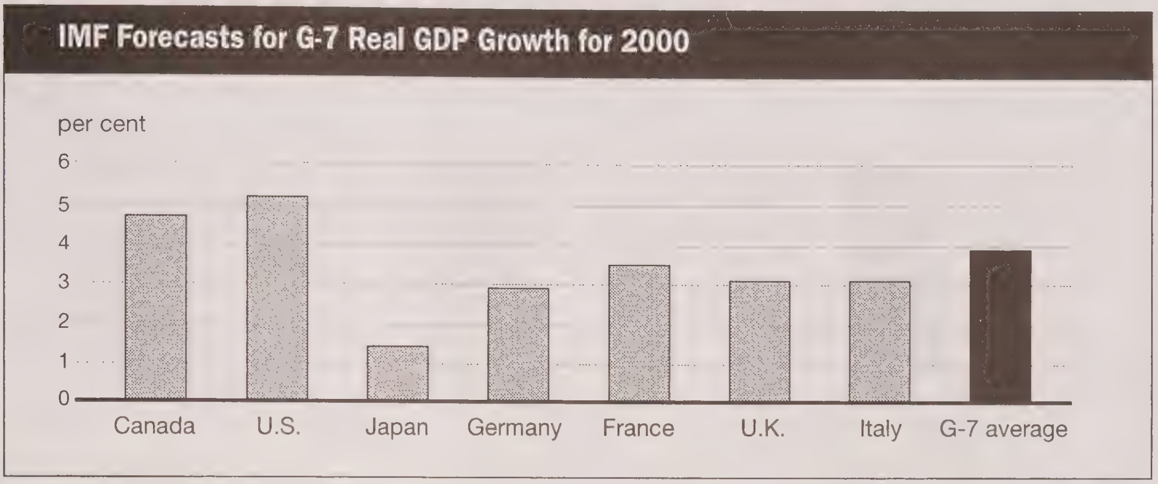
U.S. Economic Outlook

	1999	2000	2001
		(per cent)	
Real GDP growth	4.2	5.2	3.5
Consumer price inflation	2.2	3.2	2.7
3-month Treasury bill rate	4.6	5.9	6.2
10-year government bond rate	5.7	6.2	6.1

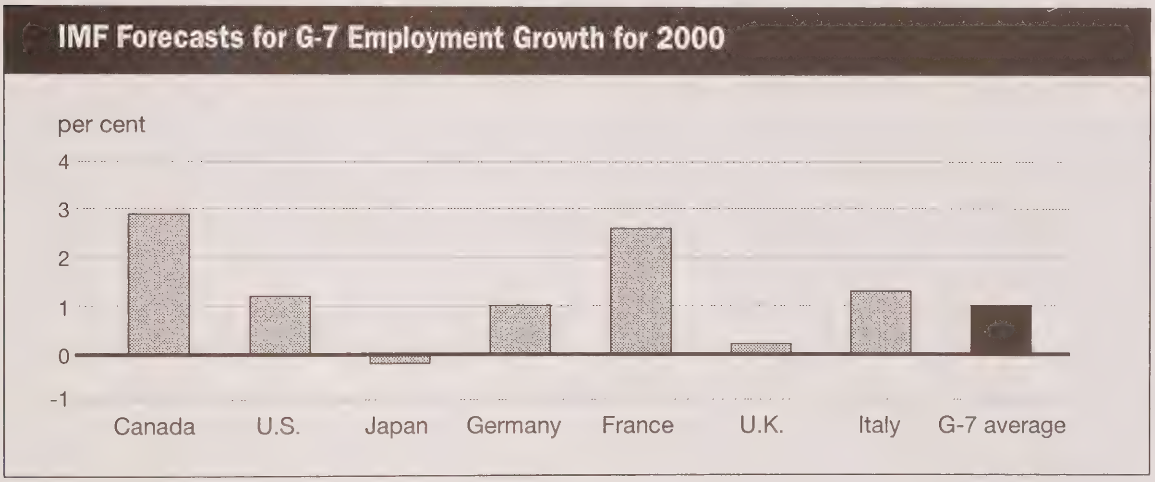
Source: *Blue Chip Economic Indicators*, September 2000.

- The strength of the U.S. economy continues to exceed expectations. Real GDP growth for 2000 and 2001 has been revised upwards to 5.2 and 3.5 per cent (from 3.8 per cent and 3.0 per cent, respectively, at the time of the February 2000 budget).
- These revised forecasts are accompanied by modest upward revisions to inflation – resulting mostly from higher energy prices – and short-term interest rates.
- The very modest increase in short-term interest rates projected for the U.S. reflects the view that a more significant interest rate increase will not be necessary to achieve a soft landing since the U.S. economy is already showing some signs of slowing.

Canada is expected to be among the top performers in the G-7 in terms of output and employment growth



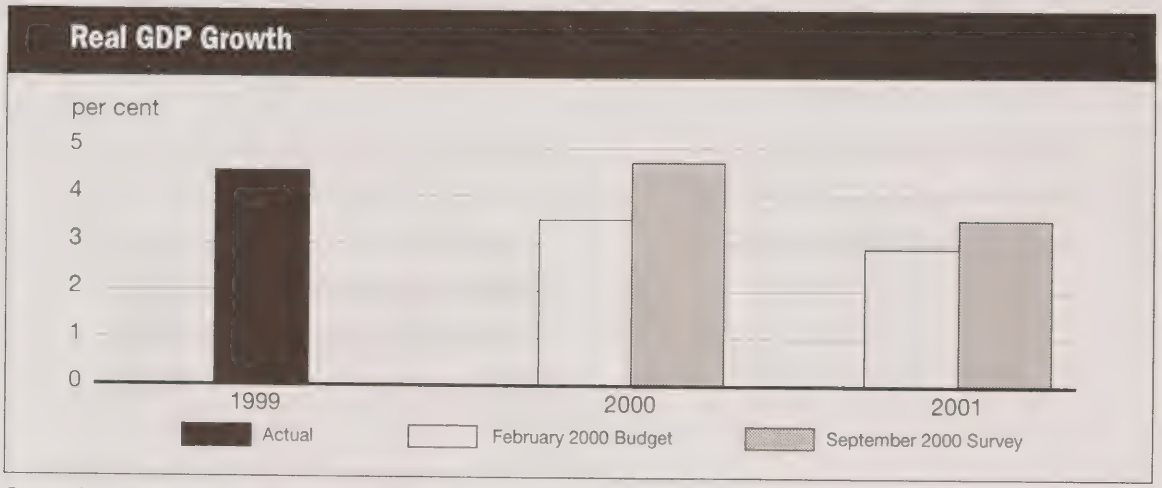
Source: IMF, *World Economic Outlook*, September 2000.



Source: IMF, *World Economic Outlook*, September 2000.

- Major international organizations continue to be very positive about Canada's prospects for real GDP and employment growth.
  - In its September forecast, the IMF expects Canada to have the second highest real GDP growth among G-7 countries in 2000.
  - Canada is also expected to continue to lead G-7 countries in terms of employment growth in 2000.

Canada's economic prospects for 2000 and 2001 have improved since the February 2000 budget



Source for February and September 2000: Department of Finance survey of private sector forecasters.

Canada's economic outlook has been revised upwards

- The average private sector forecast for real economic growth has been revised significantly upwards to 4.7 per cent for 2000 and 3.5 per cent for 2001 (from 3.5 per cent and 2.9 per cent, respectively, at the time of the February 2000 budget). This reflects the continued strength of the U.S. economy and robust Canadian domestic demand in 2000.
- The outlook for GDP inflation has also been revised upwards since the budget, reflecting in large part higher energy prices.
- Canada's improved growth outlook has been accompanied by only a modest increase in the average private sector short-term interest rate profile.

Risks to the Canadian economy are fairly balanced

- The main risk for the Canadian economy remains the potential increase in inflation pressures in the U.S., arising either from growing excess demand and the overheating of the U.S. economy or the increase in core inflation due to higher energy prices. However, recent economic developments in the U.S. suggest that growth is slowing to a more sustainable pace, translating into more balanced risks for Canada.
- While industrialized countries are now less sensitive to increases in energy prices than they were in the 1970s, recent hikes in energy prices still pose some risks to the global, and hence, Canadian economic outlook
- These risks are counterbalanced by the possibility that the capacity for the economy to grow in both Canada and the U.S. without putting pressure on inflation may be greater than expected. This is particularly true given the positive effects on productivity of new communication and information technologies, past structural reforms and restored fiscal health.

Evolution of the Average Private Sector Forecast for Canada

	2000	2001
	(per cent, unless otherwise indicated)	
Real GDP growth		
February 2000 budget	3.5	2.9
September 2000 survey	4.7	3.5
Difference (percentage points)	*1.2*	*0.6*
GDP inflation		
February 2000 budget	2.1	1.9
September 2000 survey	3.1	2.0
Difference (percentage points)	*1.0*	*0.1*
Nominal GDP growth		
February 2000 budget	5.7	4.9
September 2000 survey	8.0	5.5
Difference (percentage points)	*2.3*	*0.6*
Employment growth		
February 2000 budget	2.2	1.7
September 2000 survey	2.5	1.8
Difference (percentage points)	*0.3*	*0.1*
Unemployment rate		
February 2000 budget	6.8	6.7
September 2000 survey	6.8	6.6
Difference (percentage points)	*0.0*	*-0.1*
CPI Inflation		
February 2000 budget	2.3	2.1
September 2000 survey	2.7	2.4
Difference (percentage points)	*0.4*	*0.3*
3-month Treasury bill rate		
February 2000 budget	5.2	5.3
September 2000 survey	5.5	5.8
Difference (percentage points)	*0.3*	*0.5*
10-year government bond yield		
February 2000 budget	6.2	6.0
September 2000 survey	6.0	5.9
Difference (percentage points)	*-0.2*	*-0.1*

Note: Data shown for the September 2000 survey are an average of 21 responses in September.

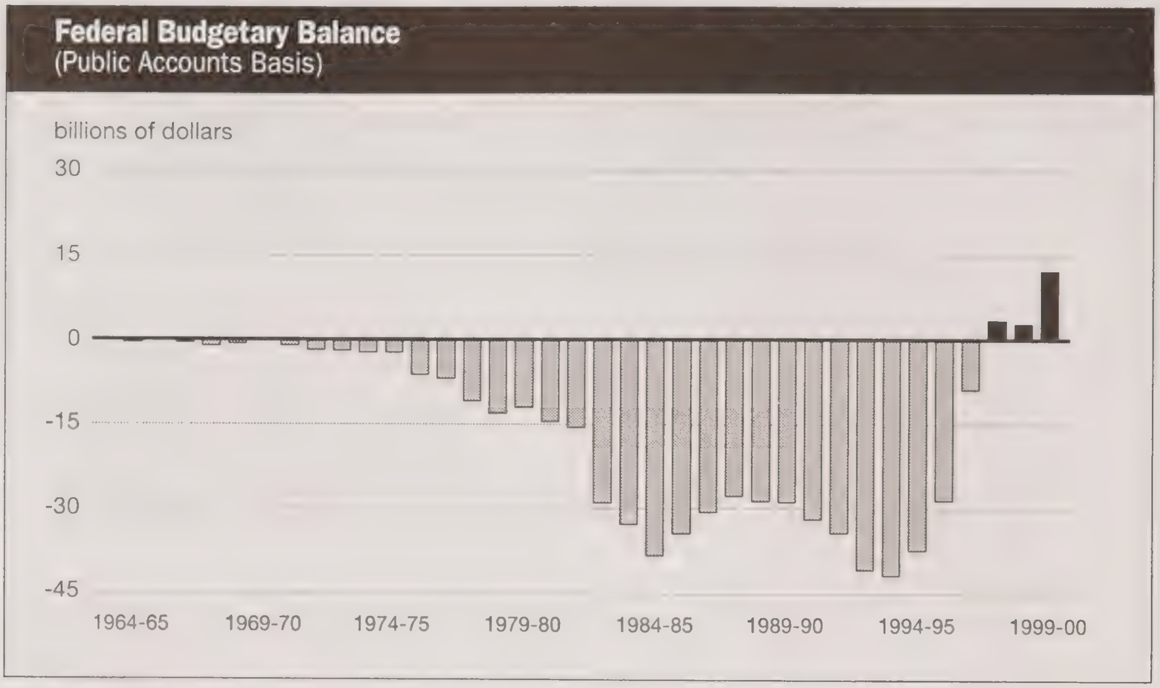
3

Canada's Fiscal Progress

Highlights

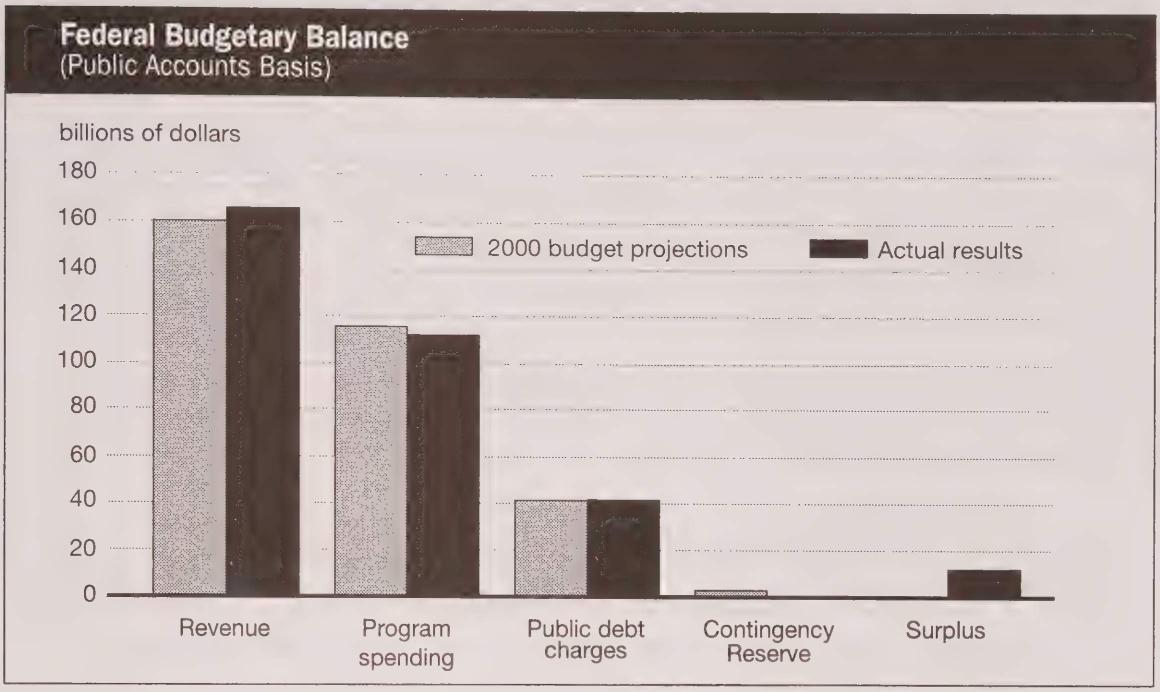
- *The federal government recorded a budgetary surplus of $12.3 billion in 1999-2000. This is the largest since Confederation and the third consecutive annual surplus, following surpluses of $3.5 billion in 1997-98 and $2.9 billion in 1998-99.*
- *Net public debt has declined $18.7 billion over the last three years to stand at $564.5 billion. This debt paydown, coupled with Canada's strong economic growth, has resulted in a significant decline in the federal debt-to-GDP ratio, from its peak of 71.2 per cent in 1995-96 to 58.9 per cent in 1999-2000.*
- *On a total government basis, between 1992 and 1999, Canada achieved the largest improvement in its financial balance of all Group of Seven (G-7) countries. Among the G-7 countries, Canada, the United States and the United Kingdom recorded overall financial surpluses in 1999.*
- *Federal program spending as a percentage of GDP has fallen to 11.7 per cent, its lowest level since 1949-50.*
- *Federal market debt – the debt issued on credit markets – fell even faster than net public debt. Over the last three fiscal years, $20.4 billion of market debt has been retired.*
- *The amount of every revenue dollar collected by the federal government that is used to pay interest on the public debt declined to 25 cents in 1999-2000, down from 36 cents in 1995-96.*
- *The aggregate provincial-territorial budget was in a surplus in 1999-2000, the first time this has occurred since the late 1970s.*

Era of budget surpluses clearly established



- There was a record budgetary surplus of $12.3 billion in 1999-2000. The federal government has now achieved three consecutive annual surpluses, with surpluses of $3.5 billion in 1997-98 and $2.9 billion in 1998-99. Three consecutive surpluses have not been recorded since 1951-52.
- In the span of six years, the federal budget balance has improved by $54.3 billion, from a $42-billion deficit in 1993-94 to a $12.3-billion surplus in 1999-2000.
- These annual surpluses – totalling $18.7 billion since 1997-98 – have reduced the net public debt.

Better than expected fiscal outcome due to higher revenues and lower spending...



Comparison of 1999-2000 outcomes to the 2000 budget projections

- The federal government's budgetary surplus for 1999-2000 was $12.3 billion – $9.3 billion above the Contingency Reserve.
- Actual budgetary revenues in 1999-2000 were $5.8 billion, or 3 per cent, higher than anticipated. Most of the unanticipated revenue gain was due to stronger than expected economic growth, resulting in higher than anticipated revenues in the final quarter of the fiscal year.
- Program spending was $3.7 billion, or 2 per cent, lower than anticipated. This mainly reflected lower than expected direct program spending and lower EI benefits due to the strong job creation performance in 1999-2000.
- Public debt charges were virtually identical to the 2000 budget estimate.

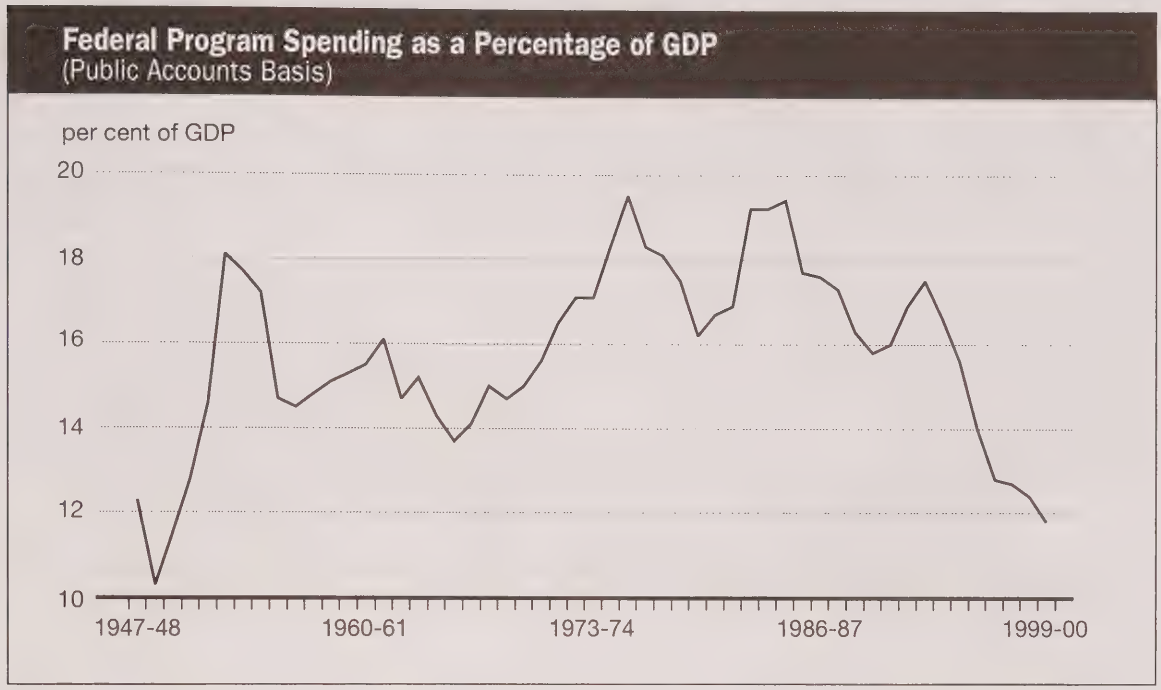
...largely reflecting stronger economic growth

Average Private Sector Projections of Nominal GDP Growth

	1999		2000
		(per cent)	
February 1999 budget	2.7		3.9
February 2000 budget	5.4		5.7
Fall 2000 Statement	6.2		8.0

- Projections of the major economic variables used in budget planning are based on the average of private sector economic forecasts. This practice was initiated with the 1994 budget.
- At the time of the 1999 budget, private sector economists expected nominal income – a proxy for the federal tax base – to grow by 2.7 per cent in 1999 and 3.9 per cent in 2000, in part reflecting concerns that deteriorating global economic prospects would have an adverse impact on Canadian economic developments. However, the global economy performed much better in 1999 than expected.
- For the February 2000 budget, private sector economists revised up their nominal income projections to 5.4 per cent for 1999 and 5.7 per cent for 2000. Data that became available after the 2000 budget, however, indicated that nominal income growth averaged 6.2 per cent in 1999 and 8.8 per cent in the first quarter of 2000. As a result, private sector economists are now forecasting nominal income growth to average 8.0 per cent for 2000.
- The much stronger than expected nominal income growth in 1999 and the first quarter of 2000 resulted in higher federal revenues.
- It also contributed, in part, to lower government spending in 1999-2000 than was expected. For example, the strong economy resulted in lower EI benefits than was anticipated as well as higher net profits for certain Crown corporations.

Program spending as a share of GDP at a 50-year low



- Fundamental reforms to program spending (total expenditures excluding interest payments on the public debt) introduced in the mid-1990s, along with sustained economic growth, have reduced program spending. Indeed, program spending in 1999-2000 was $8.3 billion lower than in 1993-94.

- As a percentage of GDP, program spending dropped to 11.7 per cent in 1999-2000 – its lowest level since 1949-50.

Debt-to-GDP ratio declines for the fourth consecutive year

- The debt-to-GDP ratio is generally recognized as the most appropriate measure of the debt burden, as it measures the debt relative to the ability of the Government and the nation's taxpayers to finance it.
- The debt-to-GDP ratio fell to 58.9 per cent in 1999-2000, a decline of 5.1 percentage points from its 1998-99 level. The improvement in the debt-to-GDP ratio during 1999-2000 was the best single-year performance since 1951-52. Of this total, 3.8 percentage points were due to economic growth, while 1.3 percentage points were due to the $12.3-billion debt repayment during the year – the largest paydown in Canada's history.
- From a peak of 71.2 per cent in 1995-96, the debt-to-GDP ratio has now declined by 12.3 percentage points.

Financial source of $14.6 billion in 1999-2000

Federal Budgetary Surplus and Financial Source
(Public Accounts Basis)

	1998-99	1999-00
	(billions of dollars)	
Budgetary surplus	2.9	12.3
Non-budgetary transactions		
Pension and other	7.0	7.0
Loans, investments and advances	0.5	-0.3
Other transactions	1.1	-4.4
Total	8.6	2.3
Financial source (excluding foreign exchange transactions)	11.5	14.6

- The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. The budgetary balance covers only those activities over which the Government has legislative control.

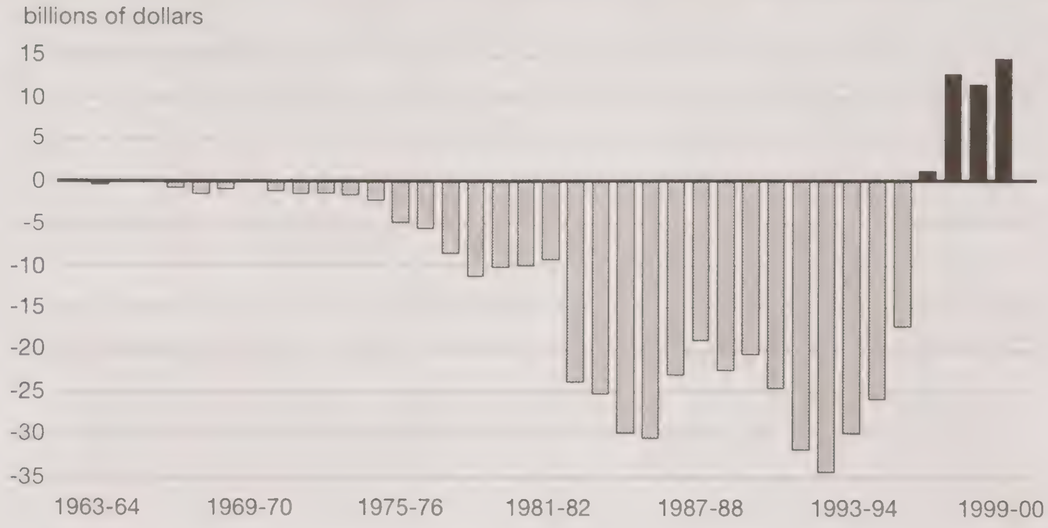
- Another important measure of the federal government's financial position is the financial requirements/source, which measures the difference between cash received and cash disbursed.

- It differs from the budgetary balance in that it includes transactions in loans, investments and advances, federal government employee pension accounts, other specified purpose accounts and changes in financial assets and liabilities. The net changes in these activities are included as part of non-budgetary transactions. The conversion from accrual to cash accounting is also reflected in non-budgetary transactions.

- Non-budgetary transactions produced a net source of funds of $2.3 billion in 1999-2000. This, combined with the budgetary surplus of $12.3 billion, resulted in a financial source (excluding foreign exchange transactions) for 1999-2000 of $14.6 billion, up from an $11.5-billion source in 1998-99.

Financial source recorded for the fourth consecutive year

Federal Financial Balance (Excluding Foreign Exchange Transactions)
(Public Accounts Basis)



- The financial requirements/source is a measure of the Government's financial position that is broadly comparable to the measures of budgetary balance used by other major industrialized countries, including the United States.
- Financial sources have now been recorded in each of the past four years. This is in contrast to the large financial requirements observed from the mid-1970s through to the mid-1990s.
- The financial source of $14.6 billion in 1999-2000 was the largest in Canada's history.

Market debt reduced by over $20 billion in three years

Federal Government Financial Assets and Liabilities
(Public Accounts Basis)

	1996-97	1999-00	Change: 1996-97 to 1999-00
		(billions of dollars)	
Interest-bearing debt			
Market debt	476.9	456.4	-20.4
Public sector pensions/other accounts	123.7	141.5	17.8
Total	600.6	597.9	-2.7
Current liabilities and allowances	40.1	40.7	0.6
Less financial assets	57.5	74.2	16.7
Net public debt	583.2	564.5	-18.7

Note: Numbers may not add due to rounding.

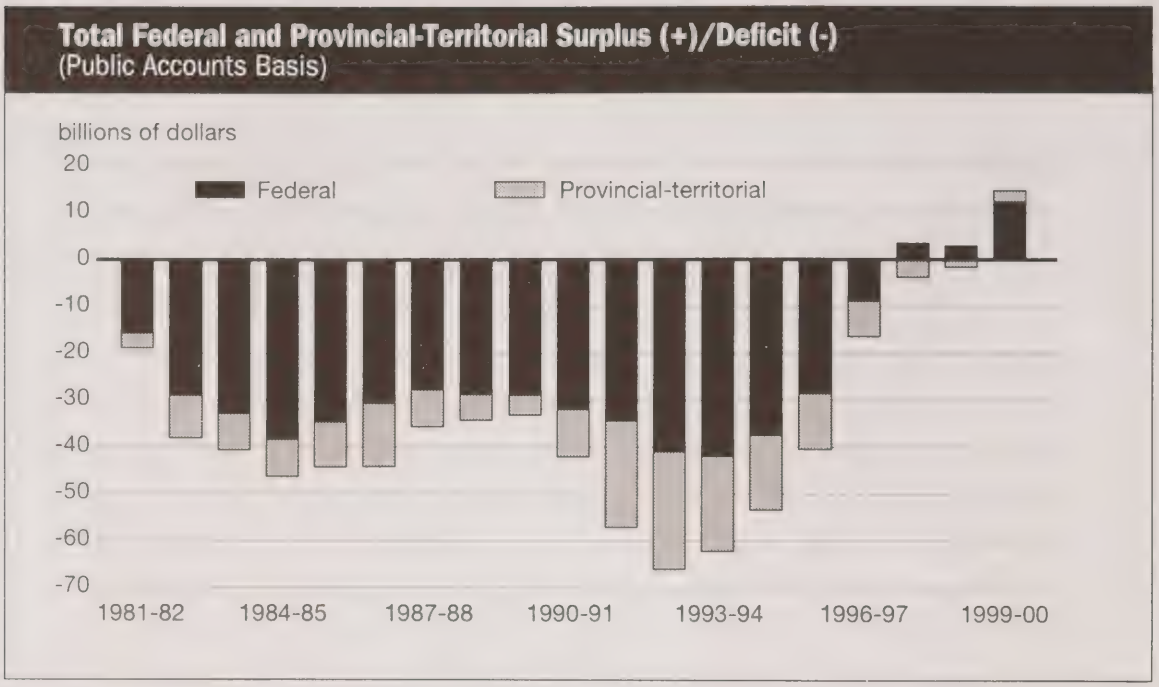
- Net public debt consists of interest-bearing debt, current liabilities and allowances (primarily accounts payable), and net financial assets (cash, accounts receivable, assets in the foreign exchange account, investment in Crown corporations and loans to other governments). Interest-bearing debt consists of market debt and the Government's liabilities to federal employee pension plans and other accounts.

- In 1999-2000, the federal government's net public debt was $564.5 billion, $18.7 billion less than its 1996-97 level.

- Market debt refers to debt issued on credit markets in the form of Government of Canada bonds, Canada Savings Bonds and Treasury bills.

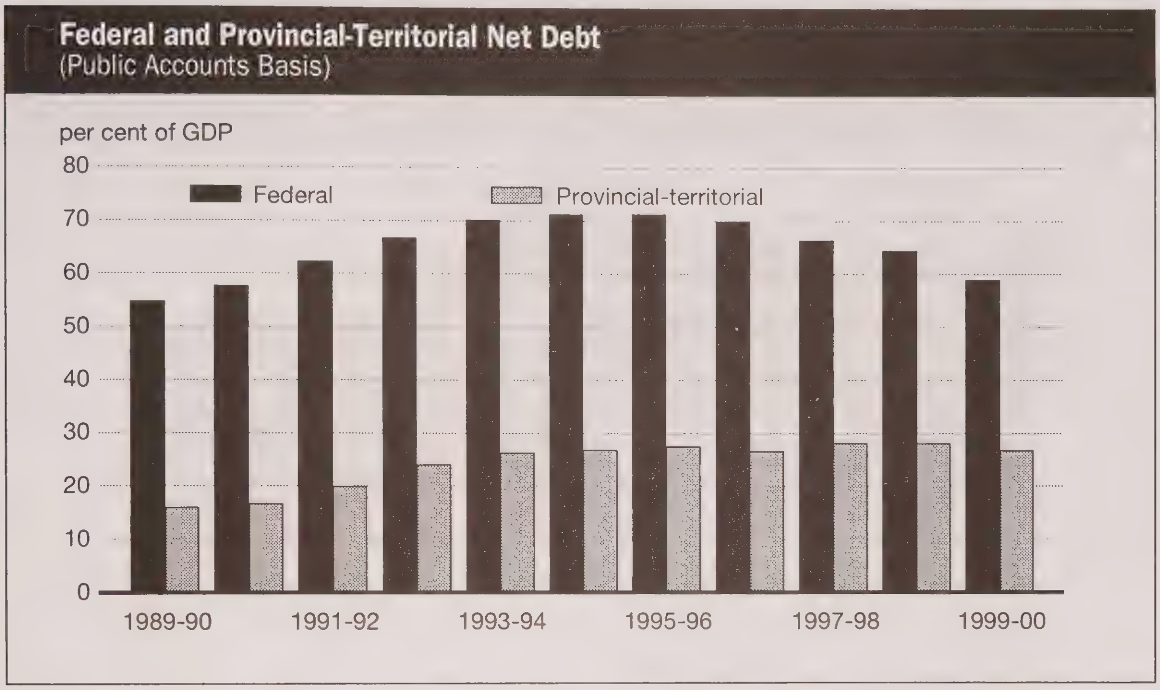
- Canada's market debt declined by $4.0 billion in 1999-2000, and has now been reduced by $20.4 billion in the past three years.

The aggregate federal-provincial-territorial fiscal situation was in surplus for the second consecutive year in 1999-2000



- In 1999-2000, the provincial-territorial government sector recorded a surplus of \$2.3 billion – its first surplus since the late 1970s. This, combined with the federal surplus of \$12.3 billion, resulted in an aggregate federal-provincial-territorial surplus of \$14.6 billion – the second consecutive annual surplus.
- This represents a remarkable improvement from 1992-93, when the federal-provincial-territorial government sector posted a \$66-billion deficit.

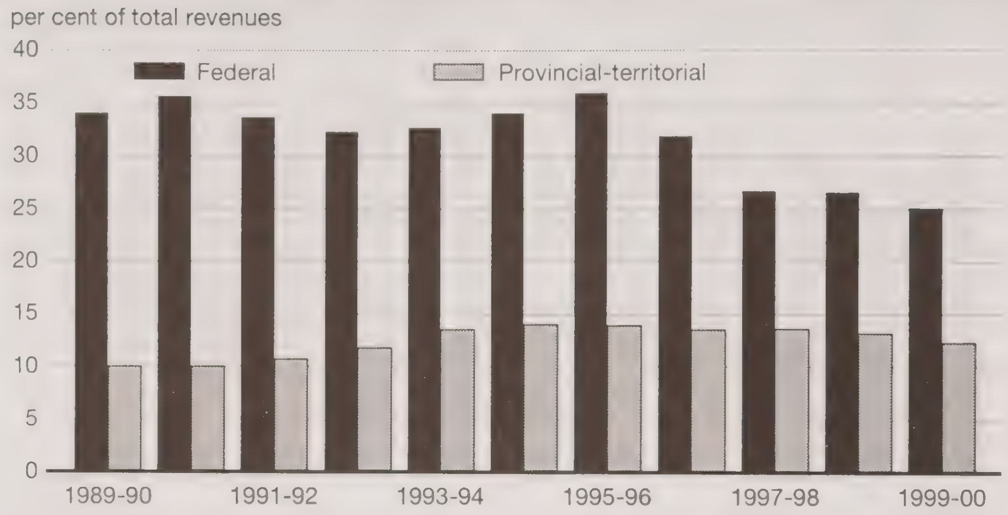
The debt burden is much larger at the federal level...



- While federal net debt as a share of GDP has declined substantially since 1995-96, the federal debt burden, at 58.9 per cent of GDP, still remains more than twice as high as the provincial-territorial debt burden (26.7 per cent).

...and so are debt charges as a per cent of total revenues

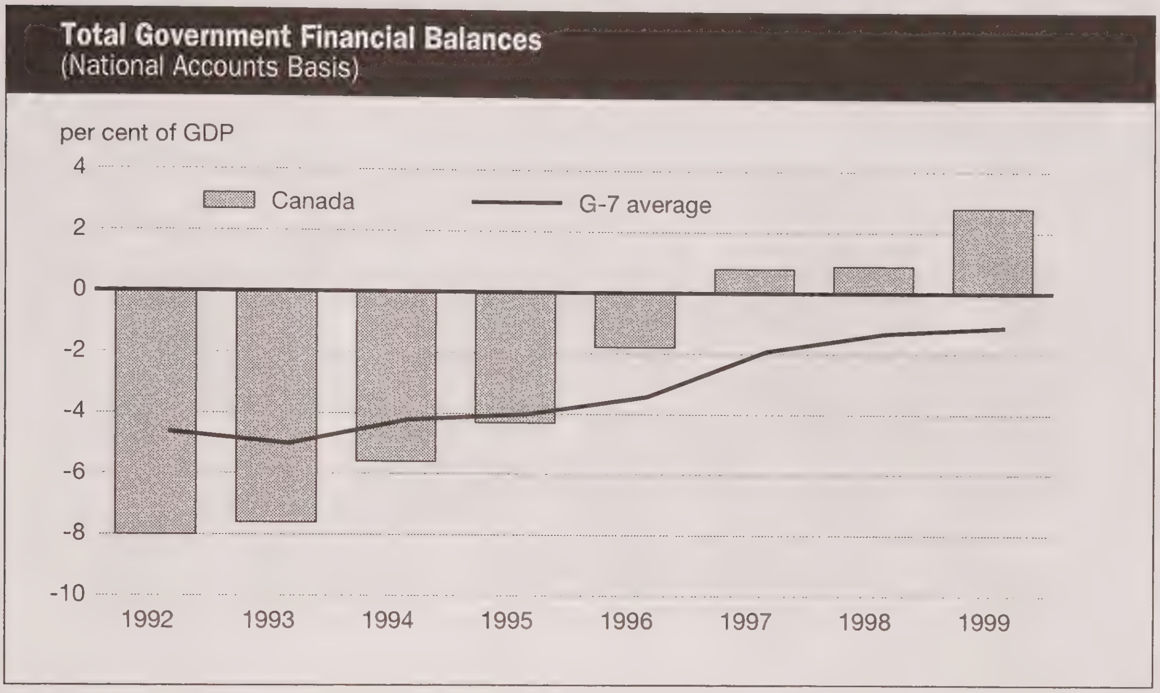
Federal and Provincial-Territorial Debt Charges
(Public Accounts Basis)



- As a result of its larger debt burden, the federal government faces much higher debt charges than the provincial-territorial sector.

- Although significant progress has been made, federal debt charges still consume 25 cents of every dollar of revenue, compared to about 12 cents for the provincial-territorial governments.

Canada's financial balance has improved significantly compared to the G-7



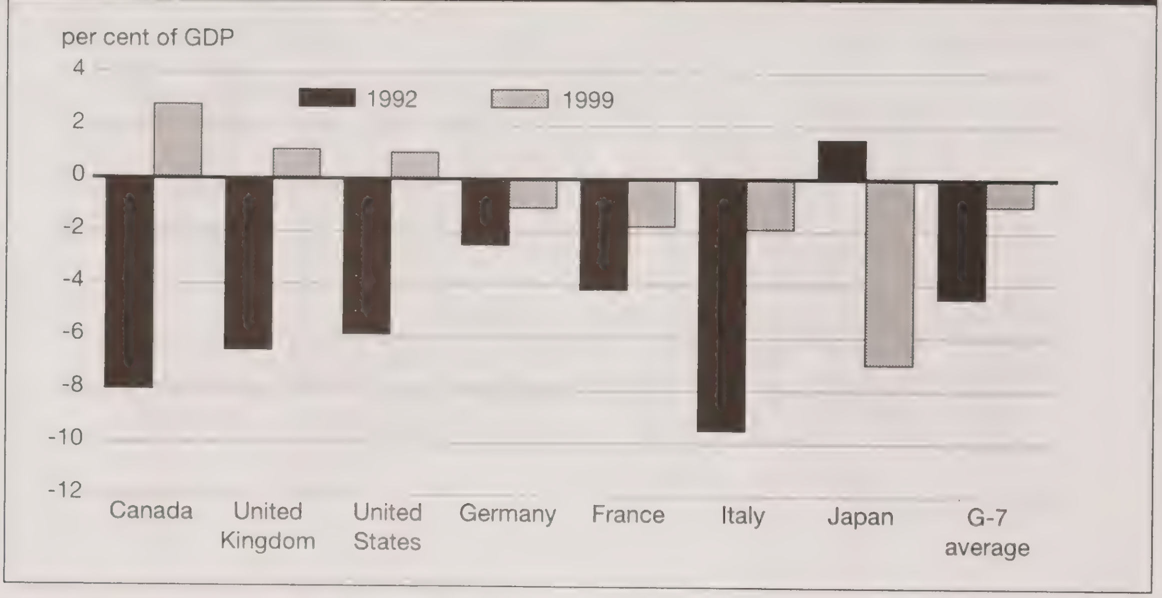
Source: *OECD Economic Outlook No.67* (June 2000).

- On a National Accounts basis, the measure commonly used to make comparisons across countries, Canada's total government[1] financial balance has improved substantially since the early 1990s.
- The total government deficit peaked at 8.0 per cent of GDP in 1992, 3.5 percentage points greater than the G-7 average deficit that year.
- By 1997, however, fiscal improvements at all levels of government enabled Canada's total government sector to post a surplus.
- In 1999, Canada's surplus reached 2.8 per cent of GDP, compared to an average deficit of 1.0 per cent in the G-7 countries.

[1] Includes federal, provincial-territorial and local governments as well as the balances in the Canada Pension Plan and Quebec Pension Plan.

Canada has achieved the most dramatic reversal of the financial balance of the G-7 countries

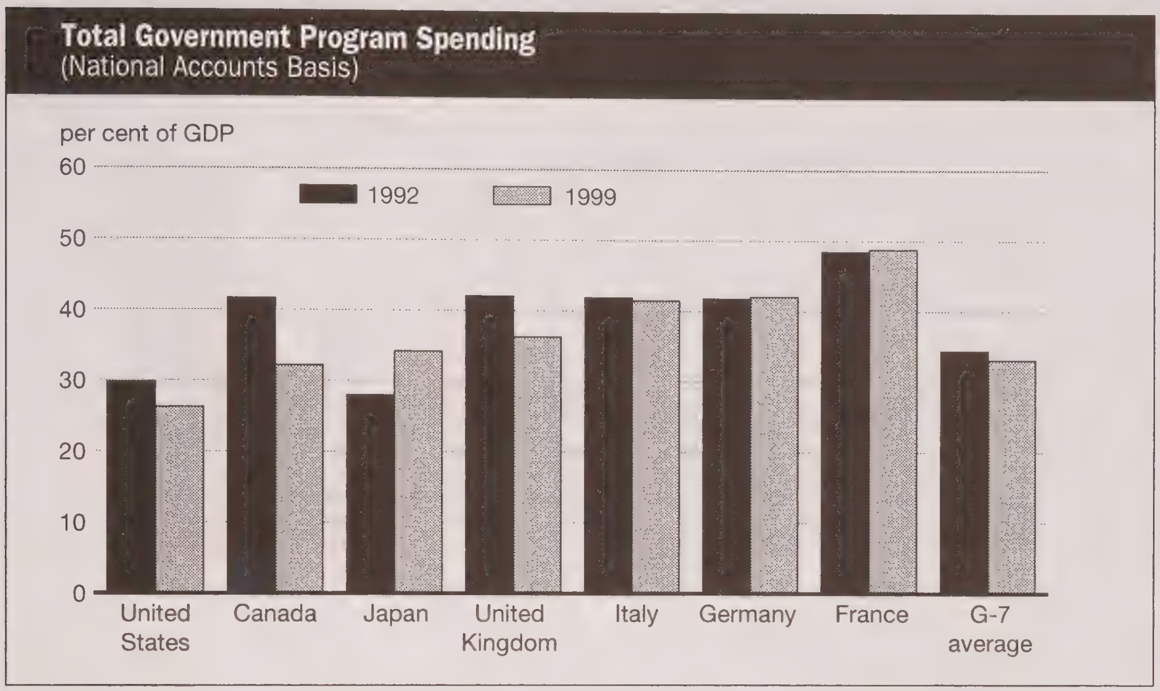
Total Government Financial Balances in the G-7
(National Accounts Basis)



Source: *OECD Economic Outlook No.67* (June 2000).

- Canada made the greatest fiscal improvement of the G-7 countries from 1992 to 1999. In 1992, Canada had the second highest deficit of the G-7 countries in relation to GDP, whereas it posted the highest financial surplus relative to GDP in 1999.

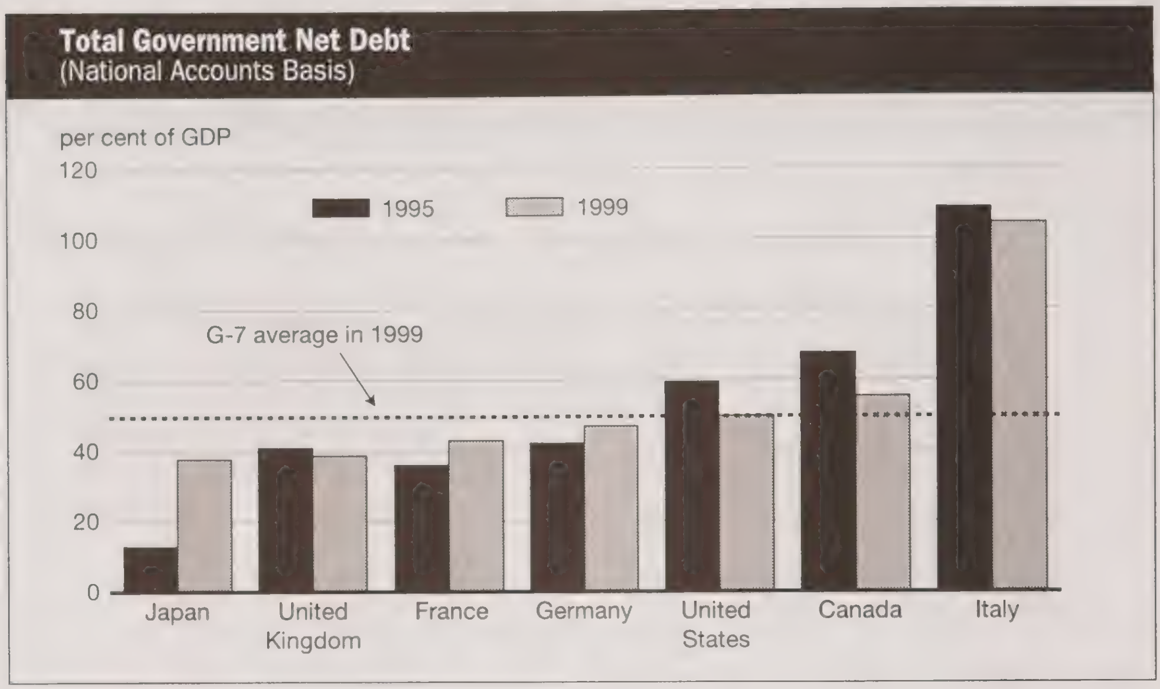
Canada's program spending as a share of GDP has been reduced to the G-7 average



Source: *OECD Economic Outlook No.67* (June 2000).

- The rapid turnaround in Canada's fiscal position, as a percentage of GDP, is attributable in large part to a sharp reduction in program spending, i.e., all expenditures less gross debt charges.
- Between 1992 and 1999, Canada's total government program spending as a share of GDP was reduced by 9.5 percentage points, a greater reduction than in any other G-7 country.
- Canada's total government program spending in relation to the size of the economy is now equal to the G-7 average.

Canada's debt burden has declined



Source: *OECD Economic Outlook No.67* (June 2000).

- While Canada's net debt-to-GDP ratio remains the second highest among G-7 countries, the debt burden has declined substantially since the mid-1990s.
- Canada's net debt-to-GDP ratio has declined 12.3 percentage points since 1995, the largest decline among the G-7 countries.

4

Canada's Fiscal Prospects

Highlights

- *The Department of Finance meets each fall with the chief economists of the major chartered banks and four private sector economic forecasting firms. The objective of this exercise, first initiated last year, is to agree on a set of economic assumptions for planning purposes, which the four forecasting firms would then use to develop projections of the fiscal surplus for the current fiscal year and each of the next five years.*

- *However, because of the greater degree of uncertainty associated with longer-term projections, fiscal policy decisions will continue to be made on a rolling two-year horizon.*

- *Prudence remains an essential feature of fiscal planning. Therefore, in order to arrive at an estimate of the fiscal surplus for planning purposes, the average fiscal surplus projections were adjusted to include:*
  - *$3 billion each year as a Contingency Reserve to guard against unforeseen developments – if it is not needed, this reserve will be used to pay down the debt; and*
  - *economic prudence to provide further assurance against going back into a deficit – this economic prudence is clearly and explicitly indicated.*

- *The average private sector forecast of the surplus was also adjusted to incorporate the cost of new policy decisions announced prior to the 2000 Statement: the September 11, 2000, First Ministers' agreements on health renewal and early childhood development and changes to employment insurance (EI) premium rates and benefits.*

- *After subtracting the Contingency Reserve, the economic prudence and these new policy initiatives from the average private sector forecast of the surplus, the surplus for fiscal planning purposes is $12.2 billion in 2000-01, $10.9 billion in 2001-02, $11.5 billion in 2002-03, $11.3 billion in 2003-04, $7.0 billion in 2004-05 and $10.7 billion in 2005-06.*

Increasing transparency in budget planning

Planning Process to Date

- When the Government came into office in 1993, there had been too many years of optimistic forecasts and missed deficit targets.

- One of the first steps that the Government took to restore credibility to federal budget planning was to adopt a prudent approach, reflected in the Debt Repayment Plan, which consists of three key elements:
  - two-year budget plans based on prudent economic planning assumptions;
  - the inclusion in the budget plan of an annual Contingency Reserve; and
  - the use of the Contingency Reserve, when it was not needed, to pay down the public debt.

- In this Statement, the Government has enhanced the Debt Repayment Plan. Each fall, it will assess the economic circumstances and determine whether a greater amount of debt paydown is warranted for that year. In some years, more will be allocated.

- Over the spring and fall of 1999, the Department of Finance began an unprecedented annual consultation process with the chief economists of Canada's major chartered banks and four leading economic forecasting firms.

- The purpose of this exercise is to:
  - agree upon a set of economic assumptions for budget planning purposes; and
  - engage the four major economic forecasting firms to use these economic assumptions to develop projections of the surplus for the current fiscal year and each of the following five years, based on current tax and spending policies.

- This process with the private sector economists was repeated in September and October 2000, and forms the basis of the economic and fiscal projections presented in this Statement.

- It has been the view of the private sector economists that, for the purposes of public debate on policy options, a five-year time horizon is appropriate.

- However, the economists agreed that great caution is warranted in the use of long-term projections as a basis for fiscal policy decision making. Therefore, the Government will continue to base its fiscal decisions on a rolling two-year horizon.

- This approach helped the Government better its fiscal targets each and every year since 1993-94.

Economic assumptions

Average of Private Sector Projections

	2000	2001	2002-2006
		(per cent)	
Real GDP growth	4.7	3.5	3.1
GDP inflation	3.1	2.0	1.8
Nominal GDP growth	8.0	5.5	5.0
CPI inflation	2.7	2.4	1.9
3-month Treasury bill rate	5.5	5.8	5.4
10-year government bond rate	6.0	5.9	5.9

Note: The number of respondents declines from 16 in 2002 to 8 in 2006.

- As detailed in Chapter 2, the private sector forecasters call for a modest slowing over the near term in real gross domestic product (GDP) growth, in tandem with slowing in the U.S. economy. Canadian interest rates are expected to increase only modestly over the same period.

- Over the medium term, the private sector forecasters expect economic growth in Canada to continue at a healthy pace. The average private sector forecast for real GDP growth over the 2002 to 2006 period is 3.1 per cent.

- GDP inflation is expected to remain just below 2 per cent over the 2002 to 2006 period. As a result, nominal GDP growth is forecast to average 5 per cent over the same period.

- The average private sector forecast also calls for relatively flat interest rates, along with consumer price inflation slightly below the mid-point of the official target band of 1 to 3 per cent.

- While the average private sector forecast over the medium term provides a reasonable basis for fiscal planning, there are risks to the outlook and experience shows that the degree of uncertainty increases as the forecast horizon expands.

Prudence remains an essential feature of budget planning

- The private sector economists recommended that the Government's prudent approach to budget planning be maintained. This includes:
  - continuing to use the average of private sector economic forecasts for budget planning purposes;
  - continuing the practice of setting aside an annual Contingency Reserve. The Contingency Reserve is included primarily to cover risks arising from unavoidable inaccuracies in the models used to translate economic assumptions into detailed fiscal forecasts and unpredictable events. The Contingency Reserve also provides an extra measure of backup against adverse errors in the economic forecast. It is not a source of funding for new policy initiatives. If not needed, it will be used to pay down the public debt; and
  - continuing to add economic prudence to provide further assurance against falling back into a deficit, and showing this prudence separately.
- The amount of the Contingency Reserve and economic prudence is determined by the Government, after consultation with the private sector economists.

Sensitivity of the Fiscal Outlook to Economic Shocks

	Estimated change in fiscal position			
	Year 1	Year 2	Year 3	Year 4
	(billions of dollars)			
1-per-cent decrease in the level of nominal income				
Revenue decrease	1.6	1.7	1.8	1.8
Expenditure increase	0.5	0.5	0.5	0.5
Deterioration in budgetary balance	2.1	2.2	2.3	2.4
100-basis-point increase in all interest rates				
Revenue increase	0.3	0.3	0.4	0.5
Expenditure increase	1.2	1.9	2.3	2.7
Deterioration in budgetary balance	0.9	1.6	1.9	2.2

Note: Numbers may not add due to rounding.

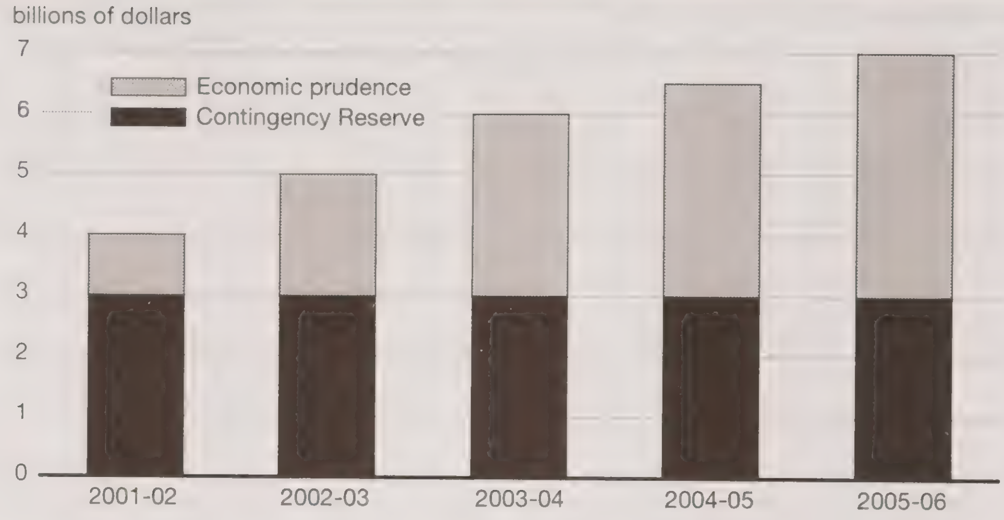
- One guide to evaluating the appropriate amount of economic prudence is the sensitivity of the budgetary balance to changes in important economic variables, such as nominal income and interest rates.

- For example, a decrease in the level of nominal income would lead to a decrease in federal government revenues through a contraction in various tax bases and an increase in spending, primarily due to higher EI benefits. A 1-per-cent decrease in nominal GDP would have a negative fiscal impact of $2.1 billion in the first year, increasing to $2.4 billion by the fourth year.

- Alternatively, a sustained 100-basis-point increase in all interest rates would reduce the budgetary balance by $0.9 billion in the first year. The negative impact on the budgetary balance would increase every year as debt would be refinanced at the higher rates. This amount would reach $2.2 billion by the fourth year.

Prudence for purposes of budget planning

Contingency Reserve and Economic Prudence



- Based on the above considerations, the Government has decided that the economic prudence for planning purposes will be set at $1.0 billion in 2001-02, $2.0 billion in 2002-03, rising to $4.0 billion by 2005-06. The economic prudence is identical to that used in the November 1999 *Economic and Fiscal Update* and the February 2000 budget.
- As in previous years, the $3-billion annual Contingency Reserve has been maintained.
- The total prudence, therefore, amounts to $4 billion in 2001-02, rising to $7 billion in 2005-06.

Assumptions underlying average private sector surplus projections

- Based on the average private sector economic projections, the four forecasting firms derived projections of the major components of the budgetary balance. The projections in the table are the average of these four sets of projections.

- These projections are based on a number of important assumptions.
  - They are based on the 2000 budget tax and spending policies. This includes those tax initiatives of the Five-Year Tax Reduction Plan that were legislated in the 2000 budget. However, since the Government indicated in the 2000 budget that the remaining elements of that Plan would be implemented no later than 2004-05, the projections include the full costs of the Plan effective in 2004.
  - The EI premium rate assumptions are those used in the 2000 budget – $2.30 (employee rate per $100 of insurable earnings) for 2001, declining by 10 cents per year until they fall to $2.00.
  - The 2000 budget projections for direct program spending – total program spending less major transfers to persons and major cash transfers to other levels of government – are used for 2000-01 and 2001-02. Thereafter, direct program spending is assumed to grow in line with the growth in the population and inflation.
  - The projections of public debt charges assume that the Contingency Reserve is not required and is applied each year to reducing the net public debt.

Surpluses for Purpose of Fiscal Planning

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
			(billions of dollars)			
Average of private sector	17.0	18.6	20.8	22.3	19.1	23.7
Prudence						
Economic prudence		1.0	2.0	3.0	3.5	4.0
Contingency Reserve	3.0	3.0	3.0	3.0	3.0	3.0
Total	3.0	4.0	5.0	6.0	6.5	7.0
Initiatives announced before 2000 Statement						
Health renewal and early childhood development	1.5	3.0	3.8	4.5	5.1	5.5
Employment insurance initiatives	0.3	0.8	0.5	0.5	0.5	0.5
Total	1.8	3.8	4.3	5.0	5.6	6.0
Surplus for planning purposes	12.2	10.9	11.5	11.3	7.0	10.7

Note: Numbers may not add due to rounding.

- Taking the average of these four forecasts results in a fiscal surplus of $17.0 billion for 2000-01, $18.6 billion for 2001-02, $20.8 billion for 2002-03, $22.3 billion for 2003-04, $19.1 billion for 2004-05 and $23.7 billion for 2005-06.

- The decline in the average fiscal surplus for 2004-05 is attributable to the Government's commitment in Budget 2000 to implement all of the initiatives in the Five-Year Tax Reduction Plan by no later than 2004-05.

- In order to derive the fiscal surplus for planning purposes, two adjustments have been made to these projections:
  - first, the $3-billion Contingency Reserve and economic prudence have been subtracted; and
  - second, the fiscal impact of recent policy decisions – the agreements on health renewal and early childhood development and the EI benefit and rate changes – has been taken into account (see Chapter 6 for details).

- After these adjustments, the fiscal surplus for planning purposes, before the measures announced in this Statement, is $12.2 billion for 2000-01, $10.9 billion for 2001-02, $11.5 billion for 2002-03, $11.3 billion for 2003-04, $7.0 billion for 2004-05 and $10.7 billion for 2005-06. Over the six-year period – 2000-01 to 2005-06 – this amounts to $63.6 billion.

Fiscal Projections for Planning Purposes: Private Sector Average (Adjusted for Policy Initiatives Announced Before the 2000 Statement and Not Including Measures Announced in the Statement)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
			(billions of dollars)			
Budgetary transactions						
Revenues	175.2	181.0	187.2	192.4	193.1	201.2
Program spending	-117.9	-124.5	-129.5	-133.8	-138.4	-142.7
Public debt charges	-42.2	-41.7	-41.2	-41.3	-41.2	-40.9
Budgetary surplus: average of private sector	**15.2**	**14.9**	**16.5**	**17.3**	**13.5**	**17.7**
Prudence						
Economic prudence		1.0	2.0	3.0	3.5	4.0
Contingency Reserve	3.0	3.0	3.0	3.0	3.0	3.0
Total	3.0	4.0	5.0	6.0	6.5	7.0
Fiscal surplus for planning purposes	**12.2**	**10.9**	**11.5**	**11.3**	**7.0**	**10.7**
Net public debt						
Balanced budget (no debt reduction)	564.5	564.5	564.5	564.5	564.5	564.5
Contingency Reserve applied to debt	561.5	558.5	555.5	552.5	549.5	546.5
Per cent of GDP						
Budgetary revenues	16.9	16.6	16.4	16.1	15.4	15.3
Program spending	11.4	11.4	11.3	11.2	11.0	10.8
Public debt charges	4.1	3.8	3.6	3.4	3.3	3.1
Planning surplus	1.2	1.0	1.0	0.9	0.6	0.8
Net public debt						
Balanced budget (no debt reduction)	54.6	51.7	49.4	47.1	44.9	42.8
Contingency Reserve applied to debt	54.3	51.2	48.7	46.1	43.7	41.5

Note: Numbers may not add due to rounding.

- The above table sets out the fiscal projections for planning purposes, for the period 2000-01 to 2005-06.

- On a status quo basis, in particular assuming that the remaining elements of the Five-Year Tax Reduction Plan are fully implemented by 2004-05, the revenue-to-GDP ratio falls from 17.3 per cent in 1999-2000 to 15.3 per cent by 2005-06.

- The program spending-to-GDP ratio, including the fiscal cost of the agreements on health renewal and early childhood development and EI changes, falls from 11.7 per cent of GDP in 1999-2000 to under 11 per cent by 2005-06. This implies an average annual growth in program spending of 3.5 per cent from 1997-98 – when the budget was first balanced – to 2005-06.

- Assuming that the Contingency Reserve of $3 billion is not required over the planning period and economic growth is as currently projected by the private sector economists, the net public debt-to-GDP ratio falls from 58.9 per cent in 1999-2000 to 41.5 per cent by 2005-06. This would bring the ratio back to where it was in 1983-84. This assumes that there is no incremental debt reduction beyond the $3-billion Contingency Reserve.

Average private sector projections of budgetary revenues

Budgetary Revenues: Private Sector Average

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
				(billions of dollars)			
Income tax							
Personal income tax	79.4	82.9	86.9	90.3	94.0	94.5	100.4
Corporate income tax	23.2	28.5	28.7	29.8	29.6	28.0	28.0
Other income tax	3.5	3.5	3.6	3.6	3.7	3.8	3.8
Total income tax	106.0	114.9	119.2	123.7	127.3	126.3	132.2
Employment insurance revenues	18.5	18.7	18.4	18.4	18.3	18.2	18.5
Excise taxes/duties							
Goods and services tax	22.8	24.2	25.7	27.1	28.4	29.9	31.5
Customs import duties	2.1	2.1	2.1	2.2	2.3	2.5	2.6
Other	8.0	8.1	8.4	8.6	8.9	9.1	9.3
Total	32.9	34.3	36.2	37.9	39.6	41.5	43.5
Total tax revenues	157.4	168.0	173.8	180.0	185.1	186.0	194.2
Non-tax revenues	8.3	7.2	7.2	7.2	7.2	7.2	7.0
Total budgetary revenues	**165.7**	**175.2**	**181.0**	**187.2**	**192.4**	**193.1**	**201.2**
Per cent of GDP							
Income tax							
Personal income tax	8.3	8.0	8.0	7.9	7.8	7.5	7.6
Corporate income tax	2.4	2.8	2.6	2.6	2.5	2.2	2.1
Other income tax	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Total income tax	11.1	11.1	10.9	10.8	10.6	10.1	10.0
Employment insurance revenues	1.9	1.8	1.7	1.6	1.5	1.5	1.4
Excise taxes/duties							
Goods and services tax	2.4	2.3	2.4	2.4	2.4	2.4	2.4
Customs import duties	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Total	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Total tax revenues	16.4	16.2	15.9	15.8	15.5	14.8	14.7
Non-tax revenues	0.9	0.7	0.7	0.6	0.6	0.6	0.5
Total budgetary revenues	**17.3**	**16.9**	**16.6**	**16.4**	**16.1**	**15.4**	**15.3**

Note: Numbers may not add due to rounding.

Average private sector projections of budgetary revenues

- The revenue projections in the table on the previous page do not include the impact of the tax cuts announced in this Statement.

- Based on the average of the four forecasting firms, budgetary revenues are projected to increase by 5.7 per cent in 2000-01. This increase reflects the combination of strong economic growth in 2000 – nominal GDP, a proxy for the underlying tax base for federal government revenues, is projected to increase by 8.0 per cent in 2000 – dampened by the impact of the tax reduction initiatives announced in Budget 2000. These included, among others:
  - restoring full indexation of the personal income tax system, effective January 1, 2000;
  - reducing the tax burden for middle-income Canadians by lowering the 26-per-cent tax rate to 24 per cent, effective July 1, 2000;
  - increasing the maximum Canada Child Tax Benefit to $2,065 from $1,805, effective July 1, 2000;
  - eliminating the 5-per-cent surtax on Canadians with incomes up to about $85,000, effective July 1, 2000;
  - reducing the federal corporate income tax rate on business income not currently eligible for special tax treatment from 28 per cent to 27 per cent, effective January 1, 2001; and
  - reducing the capital gains inclusion rate from three-quarters to two-thirds.

- The profile of budgetary revenues from 2000-01 to 2003-04 reflects the impact of continued robust economic growth and the ongoing effects of the tax reduction measures legislated in Budget 2000. In addition, the Government has introduced legislation to reduce EI premium rates from $2.40 (employee rate per $100 of insurable earnings) to $2.25. Although the proposed legislation gives the Government the authority to set the rate for 2002, for planning purposes the profile assumed in Budget 2000 is maintained (employee rate of $2.20 for 2002, declining by 10 cents per year, moving to the point where premiums would cover ongoing program costs).

- In 2004-05, budgetary revenues are projected to be virtually unchanged from 2003-04. This reflects the Government's commitment in Budget 2000 to implement all of the initiatives contained in the Five-Year Tax Reduction Plan by no later than 2004-05.

- The "revenue ratio" (revenues as a percentage of GDP) is projected to decline from 17.3 per cent in 1999-2000 to 15.3 per cent by 2005-06 – back to where it was in the late 1970s.

Average private sector projections of total program spending

Program Spending: Private Sector Average

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	(billions of dollars)						
Major transfers to persons							
Elderly benefits	23.4	24.3	25.2	26.0	26.8	27.7	28.6
Employment insurance benefits	11.3	11.6	12.2	12.8	13.0	13.0	13.1
Total	34.7	35.9	37.4	38.8	39.8	40.7	41.8
Major transfers to other levels of government							
CHST	14.9	14.5	17.3	18.6	19.3	20.4	21.0
Fiscal arrangements	10.7	12.1	12.5	13.1	13.8	14.4	15.1
Alternative Payments for Standing Programs	-2.4	-2.4	-2.5	-2.6	-2.7	-2.8	-2.9
Total	23.2	24.2	27.3	29.1	30.4	32.0	33.3
Direct program spending	53.8	57.8	59.7	61.6	63.6	65.7	67.6
Total program spending	**111.8**	**117.9**	**124.5**	**129.5**	**133.8**	**138.4**	**142.7**
Per cent of GDP							
Major transfers to persons							
Elderly benefits	2.4	2.3	2.3	2.3	2.2	2.2	2.2
Employment insurance benefits	1.2	1.1	1.1	1.1	1.1	1.0	1.0
Total	3.6	3.5	3.4	3.4	3.3	3.2	3.2
Major transfers to other levels of government							
CHST	1.6	1.4	1.6	1.6	1.6	1.6	1.6
Fiscal arrangements	1.1	1.2	1.1	1.1	1.1	1.1	1.1
Alternative Payments for Standing Programs	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Total	2.4	2.3	2.5	2.5	2.5	2.6	2.5
Direct program spending	5.6	5.6	5.5	5.4	5.3	5.2	5.1
Total program spending	**11.7**	**11.4**	**11.4**	**11.3**	**11.2**	**11.0**	**10.8**

Note: Numbers may not add due to rounding.

- The program spending projections in the above table include the impact of the agreements on health renewal and early childhood development and changes to the EI program. They do not include the initiatives announced in this Statement.

- Program spending is divided into three major components: major transfers to persons, major cash transfers to other levels of government and direct program spending.

- Total program spending, based on the average of the four private sector forecasts and adjusted to incorporate the fiscal cost of the proposed health care and employment insurance initiatives, is projected to increase from $111.8 billion in 1999-2000 to $142.7 billion in 2005-06. As a percentage of GDP, total program spending is projected to decline from 11.7 per cent in 1999-2000 to 10.8 per cent in 2005-06.

Average private sector projections of total program spending

- Major transfers to persons consist of elderly benefits and EI benefits.
  - Elderly benefits include Old Age Security pensions, the Guaranteed Income Supplement and the spouse's allowance.
  - Growth in elderly benefits is largely influenced by the growth in the elderly population and average benefits, which are fully indexed to the changes in consumer prices.
  - Growth in elderly benefits will be moderate until 2010-11, given the relatively small size of the generation born in the depression years of the 1930s and during World War II.
- There are three components of the EI benefit program: regular benefits, which are primarily a function of the number of unemployed; special benefits, which include maternity, parental and sickness benefits; and employment benefits and support measures, primarily active labour market measures delivered either by the federal government or the provinces and territories.
  - The largest and most variable component, accounting for about two-thirds of EI benefits, is regular benefits, reflecting labour market developments, in particular the number of unemployed.
  - The growth in EI benefits to 2005-06 primarily reflects the impact of the extension of parental benefits announced in the 2000 budget and the recently proposed modifications to the intensity and clawback provisions.
- The major programs under which the federal government transfers funds to other levels of government are the Canada Health and Social Transfer (CHST) and fiscal arrangements; the latter include Equalization and Territorial Formula Financing.
  - Under the agreements on health renewal and early childhood development reached by First Ministers on September 11, 2000, CHST cash transfers will increase from $14.5 billion in 2000-01 to $21.0 billion in 2005-06. In 1999-2000, there was a special cash supplement of $2.5 billion.
  - The largest component under fiscal arrangements is Equalization, whereby the federal government transfers funds to provinces with below-average revenue-raising capacities so that they can provide reasonably comparable levels of public services at reasonably comparable levels of taxation. The projection assumes that Equalization transfers grow in line with the growth in GDP.
- Direct program spending – total spending less major transfers to persons and other levels of government – consists of subsidies and other transfer payments, expenditures related to Crown corporations, defence spending, and operating and capital expenditures of non-defence departments and agencies.
  - For the purposes of this exercise, the Budget 2000 estimates were used for 2000-01 and 2001-02, adjusted for the recently announced health initiatives. Thereafter, direct program spending is projected to increase at an average annual rate in line with the growth in the population and inflation.

5

Providing Tax Relief to Canadians

Highlights

This Statement delivers tax cuts to all Canadians, especially moderate- and middle-income families with children.

The Statement accelerates and deepens the tax reductions announced in the 2000 budget.

Most tax changes proposed in this Statement will be effective January 1, 2001, in less than two and a half months – and all will be legislated. The Statement includes the following measures:

- *Lower all personal income tax rates effective January 2001:*
  - *The 17-per-cent rate will be reduced to 16 per cent.*
  - *The 24-per-cent middle tax rate – reduced from 26 per cent in the 2000 budget – will be reduced further to 22 per cent.*
  - *The 29-per-cent top tax rate will be reduced to 26 per cent on incomes between about $60,000 and $100,000.*
  - *The top tax rate of 29 per cent will apply to incomes in excess of $100,000.*
  - *The deficit-reduction surtax will be eliminated.*
- *Additional assistance for those who need it most:*
  - *Effective July 2001, the Canada Child Tax Benefit for low- and middle-income Canadians will be raised, with maximum benefits for the first child rising to more than $2,500 by 2004.*
  - *Effective January 2001, the disability tax credit amount will be raised to $6,000 from $4,293.*
  - *Effective January 2001, credit amounts for caregivers of dependent relatives who are elderly, infirm or disabled will be raised to $3,500 from $2,386.*

One-Time Relief for Heating Expenses

The Government is concerned about the impact of rising energy prices on home-heating costs. Accordingly, in early 2001, it will provide one-time relief to help low- and modest-income Canadians. This relief will be $125 per individual or $250 per typical family. The total cost of this measure will be $1.3 billion.

- *Immediate measures to reward entrepreneurship and innovation:*
  - *The capital gains inclusion rate will be cut further from two-thirds to one-half.*
  - *Tax-free rollovers will be expanded and made available to more businesses. The size of eligible investment will be increased to $2 million from $500,000 and the size of business eligible for the rollover will be increased to $50 million from $10 million.*
- *Measures to encourage jobs and growth:*
  - *A legislated timetable will be provided for accelerating corporate income tax cuts from 28 per cent to 21 per cent, with a one-point reduction in 2001 followed by a two-point cut in each of the following three years.*
  - *Effective January 1, 2001, self-employed individuals will be allowed to deduct the portion of Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) contributions that represents the employer's share.*

In addition to measures announced in this Statement, there will be ongoing tax reductions resulting from measures in the 2000 budget such as indexation.

By 2004-05, the measures announced in this Statement, combined with those in the 2000 budget, will provide $100 billion of cumulative tax relief, an increase from the $58 billion announced in the 2000 budget.

By 2004-05:

- *The average personal income tax burden will be 21 per cent less.*
- *The average personal income tax burden for families with children will be 27 per cent less.*

Examples of tax relief for typical taxpayers:

- *Last year a two-earner family of four earning $60,000 paid about $5,700 in federal income taxes. Next year they will pay over $1,000 less, an 18-per-cent saving. The savings will increase to 34 per cent by 2004.*
- *A one-earner family of four earning $40,000 paid about $3,325 in federal income taxes last year. Next year they will pay about $1,100 less, a saving of 32 per cent. The savings will increase to 59 per cent by 2004.*
- *A single parent with one child earning $25,000 received a net benefit of over $1,400 last year. Next year they will receive an additional benefit of over $800, for a total net benefit of $2,200.*
- *A single parent with one child earning $33,000 paid about $900 in federal income taxes. Next year, their net taxes will be reduced by almost $1,000, not only dropping them from the tax rolls, but making them a net beneficiary.*

Taken together, the Government's tax measures since the elimination of the deficit will reduce average personal income taxes for Canadians by 27 per cent by 2004-05. For families with children, the tax reduction will be substantially larger – 35 per cent.

Introduction

Tax policy plays a fundamental role in economic growth and social development. It does so both directly and indirectly. Reducing taxes puts money back in the pockets of Canadians. Improvements in the tax structure can also have a substantial indirect impact on living standards by improving international competitiveness, encouraging entrepreneurship and enhancing incentives to work, save and invest.

This Statement builds on tax reductions delivered in previous budgets, particularly the tax reduction plan in the 2000 budget.

The tax package announced in this Statement focuses on:

- providing tax relief to all Canadians – particularly moderate- and middle-income families with children;
- helping those who need it most so that no one is left behind as the economy moves forward; and
- promoting entrepreneurship, economic growth and job creation in ways that give Canadians an advantage in the new economy.

The Government proposes to achieve these objectives by:

- substantially accelerating personal income tax reductions announced in the 2000 budget and introducing new measures;
- introducing tax initiatives specifically designed to help those who need it most; and
- legislating an accelerated timetable for corporate income tax cuts, and introducing other growth-oriented new-economy measures.

All tax proposals outlined in this Statement, as well as those announced in the 2000 budget, will be legislated. Most of the proposals in the Statement will be effective in less than two and a half months, on January 1, 2001.

Tax Measures in the Economic Statement and 2000 Budget

Table 5.1 presents the measures proposed in this Statement, along with the amount of tax relief associated with each measure.

By 2004-05, the measures outlined in this Statement will deliver an annual reduction in taxes of almost $7 billion on top of the $20-billion annual tax reduction that will occur in that year as a result of the measures announced in the 2000 budget, for a total annual reduction of $27 billion (Table 5.2).

Cumulative tax reductions during this and the next four years will amount to $100.5 billion (Table 5.3).

On an annual basis, these combined measures will reduce federal personal income taxes for all Canadians (Table 5.4):

- The combined effect of tax reductions in the 2000 budget and this Statement will be to reduce taxes on average by 21 per cent by 2004-05, relative to taxes otherwise payable.
- For families with children, the combined effect of tax reductions in the 2000 budget and this Statement will be to reduce taxes by an average of 27 per cent by 2004-05.

Combined with the actions taken since the elimination of the deficit, the average personal income tax reductions by 2004-05 will be 27 per cent, with a 35-per-cent reduction for families with children by 2004-05.

Table 5.1
Statement Tax Relief Measures – Effective January 1, 2001

	2000-01	2001-02	2002-03	2003-04	2004-05
			($ millions)		
Reducing Tax Rates					
17% rate to 16%	480	1,940	2,115	2,235	2,430
24% rate to 22%	555	2,250	2,495	2,270	1,205
29% rate to 26% for incomes of $61,509 to $100,000	235	965	1,090	1,140	1,130
Eliminate the 5% surtax	125	500	565	425	–
Total	**1,395**	**5,655**	**6,265**	**6,070**	**4,765**
Increasing Assistance for Those Who Need It Most					
Relief for heating expenses	1,345	–	–	–	–
Increase the Canada Child Tax Benefit (effective July 2001)	–	260	355	355	255
Increase tax assistance for people with disabilities	20	80	85	85	90
Increase tax assistance for caregivers	5	20	25	25	25
Total	**1,370**	**360**	**465**	**465**	**370**
Rewarding Entrepreneurship and Innovation					
Reduce capital gains inclusion rate to 50% (effective October 18, 2000)	20	175	485	715	905
Expand rollovers of capital gains (effective October 18, 2000)	–	50	50	50	50
Total	**20**	**225**	**535**	**765**	**955**
Encouraging Growth and Job Creation					
Reduce corporate income tax rates (phased in starting in January 2002)	–	160	1,140	1,790	255
Provide C/QPP deduction for self-employed	–	40	65	65	65
Introduce flow-through share tax credit for mineral exploration (effective October 18, 2000)	5	35	40	50	20
Total	**5**	**235**	**1,245**	**1,905**	**340**
Education					
Increase education credit	10	225	230	240	240
Total	**10**	**225**	**230**	**240**	**240**
Total	**2,800**	**6,700**	**8,740**	**9,445**	**6,670**

Note: All measures are effective January 1, 2001, except where noted. Estimates assume an average annual indexation factor of 2.1 per cent over five years.

Table 5.2
Total Tax Relief Provided by the Statement and 2000 Budget Tax Plan

	2000-01	2001-02	2002-03	2003-04	2004-05
			($ millions)		
Reducing Tax Rates					
17% rate to 16%	480	1,940	2,115	2,235	2,430
26% rate to 22%	2,215	4,755	5,300	5,690	6,105
29% rate to 26% for incomes of $61,509 to $100,000	235	965	1,090	1,140	1,130
Eliminate the 5% surtax	345	885	995	1,075	1,150
Increasing Thresholds[1]					
Personal/spouse amounts to $8,000/$6,800	440	860	1,335	1,885	2,625
2nd tax bracket to $35,000	315	475	740	1,220	2,130
3rd tax bracket to $70,000	125	335	550	930	1,635
Increasing Assistance for Those Who Need It Most					
Relief for heating expenses	1,345	–	–	–	–
Increase the Canada Child Tax Benefit	440	1,250	1,675	1,920	2,560
Increase tax assistance for people with disabilities	35	125	130	130	135
Increase tax assistance for caregivers	5	20	25	25	25
Rewarding Entrepreneurship and Innovation					
Reduce capital gains inclusion rate	40	300	730	1,060	1,280
Rollover of capital gains	20	125	125	125	125
Stock option deferral	10	75	75	75	75
Encouraging Growth and Job Creation					
Reduce corporate income tax rates	105	765	1,820	2,985	4,075
Provide C/QPP deduction for self-employed	–	40	65	65	65
Introduce flow-through share tax credit for mineral exploration	5	35	40	50	20
Education					
Increase education credit	10	225	230	240	240
Technical measures including other indexation	35	205	475	660	845
Total Tax Relief: 2000 Budget and Statement	6,205	13,380	17,515	21,510	26,650
Of which – Statement	2,800	6,700	8,740	9,445	6,670
Of which – 2000 budget	3,405	6,680	8,775	12,065	19,980

Note: Estimates may differ from those in the 2000 budget because of changes in the underlying economic projections. Where applicable, estimates include indexation.

[1] Estimates include the cost of indexation and scheduled increases in 2004.

Table 5.3
Cumulative Tax Relief of $100 Billion Over Five Years

	2000-01	2001-02	2002-03	2003-04	2004-05	Total
			($ billions)			
Personal income tax	6.2	12.7	15.6	18.3	22.3	75.2
Corporate income tax	–	0.6	1.9	3.2	4.4	10.1
Employment insurance	1.5	2.5	3.0	3.8	4.4	15.2
Total	**7.7**	**15.9**	**20.5**	**25.3**	**31.1**	**100.5**
Of which:						
2000 budget						
Personal income tax	3.3	5.6	7.2	8.7	14.7	39.5
Corporate income tax	-0.1	0.3	0.5	0.5	2.9	4.0
Employment insurance	1.4	2.2	3.0	3.8	4.4	14.8
Total	**4.6**	**8.1**	**10.7**	**13.0**	**22.1**	**58.3**
Increases due to revised forecasts						
Personal income tax	0.1	0.6	0.9	2.1	1.4	5.2
Corporate income tax	0.1	0.2	0.2	0.8	1.0	2.2
Total	**0.2**	**0.8**	**1.1**	**2.9**	**2.4**	**7.4**
Increases due to Statement measures						
Personal income tax	2.8	6.5	7.5	7.5	6.2	30.5
Corporate income tax	–	0.2	1.2	2.0	0.5	3.9
Employment insurance	0.1	0.3	–	–	–	0.4
Total	**2.9**	**7.0**	**8.7**	**9.5**	**6.7**	**34.8**

Note: Numbers may not add due to rounding.

Table 5.4
Percentage Annual Personal Income Tax Reductions by 2004-05

	2000 budget	2000 budget and Statement	All budgets and Statement since deficit elimination
		(per cent)	
Average all Canadians	15.0	20.7	26.5
Families with children[1]	20.7	27.2	35.0

[1] Calculated based on the proportion of federal personal income tax relief that would accrue to families with children.

Reducing Personal Income Tax Rates

Effective January 1, 2001, it is proposed that:

- the 17-per-cent rate be reduced to 16 per cent on taxable incomes up to $30,754;[1]
- the 24-per-cent rate, reduced from 26 per cent in the 2000 budget, be reduced further to 22 per cent on taxable incomes between $30,754 and $61,509;
- the 29-per-cent rate be reduced to 26 per cent on taxable incomes between $61,509 and $100,000. The threshold for the application of the 29-per-cent rate would rise to $100,000; and
- the deficit-reduction surtax introduced in 1989 be eliminated.

The thresholds for these tax rates will rise automatically over time as a result of indexation, with further increases by 2004 as a result of the 2000 budget measures. The new $100,000 threshold for the 29-per-cent tax rate will be adjusted in parallel with the other thresholds.

In the Canadian tax system, the rate that applies generally to non-refundable credits as well as for the alternative minimum tax (AMT) is the lowest tax rate. With the reduction in the lowest tax rate to 16 per cent, the rate applied to non-refundable credits and the AMT will consequently decline from 17 per cent to 16 per cent.

Providing Relief for Heating Expenses

The Government proposes to provide relief from higher heating expenses to those who need it most. This relief for heating expenses is treated as targeted tax relief. It will be delivered through the tax system to individuals and families receiving payments under the goods and services tax (GST) credit.[2]

Each individual who is eligible for the adult entitlement of the GST credit will receive $125 in relief. Individuals claiming the GST credit in respect of themselves and a qualified relation or dependant will receive a total of $250. Although the GST credit is gradually phased out as income rises, all GST credit recipients will receive the full heating expense relief.

This one-time payment will directly benefit about 11 million Canadians at a cost of over $1.3 billion in 2000-01.

[1] Where appropriate, tax parameters for 2001 assume an indexation factor of 2.5 per cent.

[2] This relief will be recorded as part of program spending.

Increasing Assistance for Those Who Need It Most

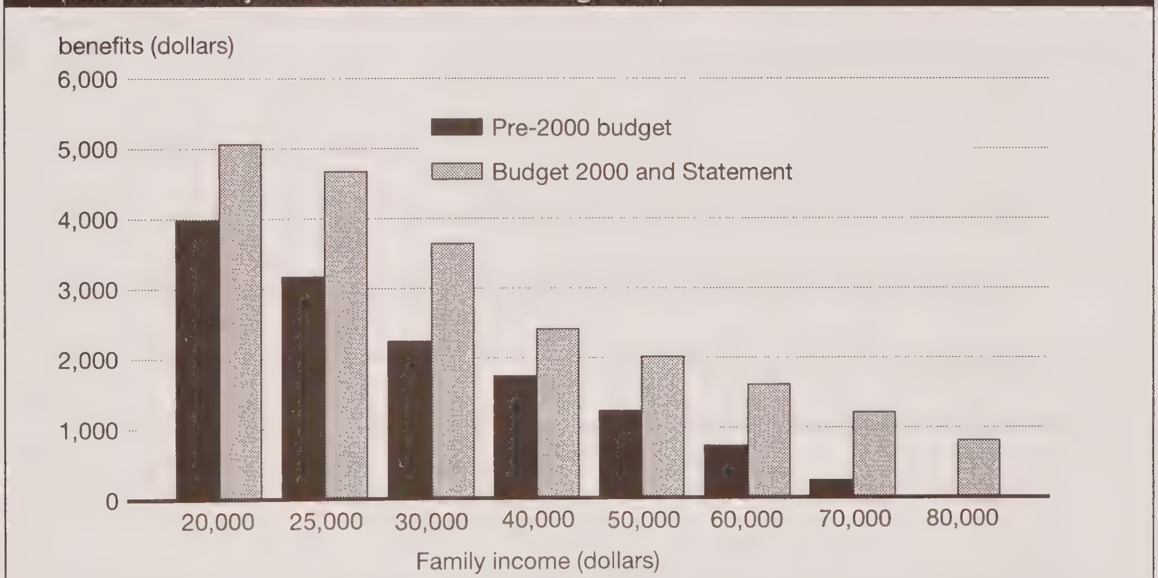
Canada Child Tax Benefit

As part of the Canada Child Tax Benefit (CCTB) enrichments announced in the 2000 budget, the National Child Benefit (NCB) supplement for low-income families with children was scheduled to increase by $200 per child in July 2001. It is now proposed to enrich the NCB supplement by an additional $100 per child, bringing the total July 2001 increase to $300 per child. As a result, the maximum benefit for the first child will rise to over $2,500 by July 2004. There will be corresponding increases in the supplement for additional children.

As described in Annex 2, the income threshold at which the NCB supplement is fully phased out, and the base benefit begins to be phased out, will increase to $32,000 from $30,754. This will deliver further assistance to modest- and middle-income families.

As Chart 5.1 shows, actions taken in the 2000 budget and this Statement will substantially increase benefits to low-income families. For example, a two-child family with an income of $30,000 will see its CCTB benefits increase by more than 60 per cent from $2,233 to $3,640 by 2004.[3]

Chart 5.1
CCTB Benefits by Income Level in July 2004
(Two-Child Family With One Child Under the Age of 7)



Note: Includes additional benefit available for children under 7 years of age for whom no child care expense is claimed.

3 Assumes an average annual indexation factor of 2.1 per cent over five years.

Increasing Tax Assistance for People With Disabilities

The disability tax credit (DTC) provides tax assistance to people with severe and prolonged disabilities. Currently the amount on which the credit is based is $4,293. It is proposed that this amount be increased to $6,000 effective 2001, which will bring the maximum tax relief from the DTC to $960. This tax relief will increase over time as the DTC amount is fully indexed to inflation.

The increase in the DTC amount will also extend the benefits of the refundable medical expense supplement for earners to more low-income Canadians. This will happen because the supplement is reduced by 5 per cent of net family income above an income threshold that is equal to the sum of the basic amount ($7,231), the spousal amount ($6,140), and the basic DTC amount ($4,293). As a result of increasing the DTC amount, this income threshold is expected to increase from $17,663 to about $19,705 in 2001 taking into account indexation.

Furthermore, the Government proposes that speech-language pathologists be able to certify eligibility for the DTC in respect of speech impairments.

Increasing Tax Assistance for Caregivers

The Government also proposes to enhance tax assistance for caregivers of elderly parents, grandparents and infirm dependent relatives by increasing the amount on which the caregiver tax credit is based from $2,386 to $3,500 for 2001. This will bring the maximum tax relief to $560. Consistent with this change, the amount on which the infirm dependant credit and the supplement to the DTC for children with severe disabilities are calculated will also be increased to $3,500. With indexation of these amounts, this tax relief will increase over time.

Table 5.5
Credit Amounts for People With Disabilities and Caregivers

	2000	2001
	(dollars)	
DTC	4,293	6,000
Caregiver tax credit	2,386	3,500
Infirm dependant credit	2,386	3,500
DTC supplement for children with severe disabilities	2,941	3,500

Rewarding Entrepreneurship and Innovation

Capital Gains and Employee Stock Options

In the 2000 budget, the Government reduced the capital gains inclusion rate from three-quarters to two-thirds. The Government now intends to further reduce the inclusion rate for capital gains to one-half, effective immediately.

With the proposed change, the top federal-provincial tax rate on capital gains in Canada will be reduced from an average of about 31 per cent to about 23 per cent, lower than the typical combined federal-state top tax rate on capital gains in the U.S. of about 25 per cent. Further details are provided in Table A2.15 of Annex 2.

Consistent with this change, the deduction for employee stock options will be increased from one-third to one-half. As a result, employees in Canada will be taxed more favourably on their stock option benefits than employees in the U.S.

Capital Gains Rollovers for Small Business Investors

The 2000 budget provided a tax-free rollover on the first $500,000 invested in an eligible business. To qualify for the tax-free rollover, the business may have no more than $2.5 million in assets immediately before the investment is made and $10 million immediately after the investment.

Effective immediately, the capital gains rollover measure for small business will be expanded as follows:

- the $500,000 investment limit will be increased to $2 million; and
- the size of small businesses eligible for the rollover will be increased from $10 million to include corporations with no more than $50 million in assets immediately after the investment, and the $2.5-million restriction will be eliminated.

These changes will expand the small business rollover measure to encompass later-stage financings and help facilitate the growth of small companies, particularly in the new economy.

Encouraging Growth and Job Creation

Corporate Income Tax Reductions

The 2000 budget proposed to reduce, within five years, the federal corporate income tax rate from 28 per cent to 21 per cent on business income not currently eligible for special tax treatment, with the first cut to 27 per cent effective January 1, 2001.

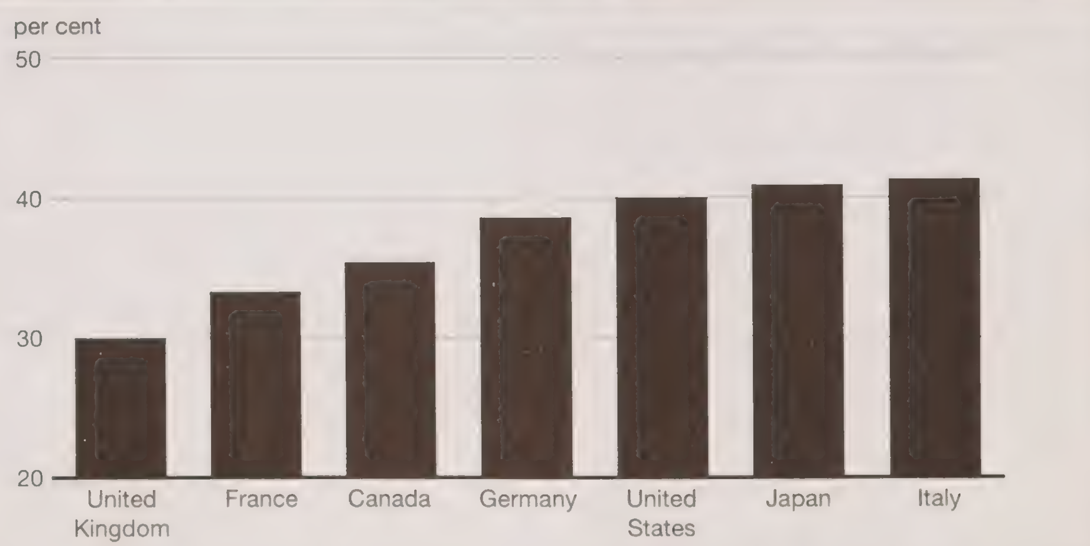
This Statement sets out a clear accelerated timetable for the remaining reductions. Specifically, the Government proposes to legislate a reduction of 2 points, from 27 per cent to 25 per cent, effective January 1, 2002, a further reduction of 2 points effective January 1, 2003, and the remaining 2-percentage-point reduction effective January 1, 2004 (all prorated for taxation years that include those dates).

The reductions announced in the 2000 budget, which were followed by similar proposed reductions in provincial tax rates in Ontario and Alberta, will reduce the combined average federal-provincial corporate tax rate (including capital taxes) to about 35 per cent by 2005, 5 percentage points below the U.S. rate (Chart 5.2). This will significantly improve the competitiveness of Canadian corporations, thereby increasing investment, employment, productivity, wages and incomes of Canadians.

The resource sector currently benefits from a number of special tax preferences not available to other sectors in the economy that serve to reduce its effective tax rate. The Government is consulting with both industry associations and provinces on options to extend the lower income tax rate to this sector while at the same time improving the tax structure.

As announced in the 2000 budget, a full 7-percentage-point reduction will apply to Canadian-controlled private corporations, on taxable income between $200,000 and $300,000 effective January 1, 2001 (prorated for taxation years that straddle that date).

Chart 5.2
Corporate Tax Rates in G-7 Countries in 2005



Note: Rates effective by 2005, based on changes announced to October 2000. Rates include the income tax rate equivalent of capital taxes, where this information is available. The 2005 Canadian tax rate includes the reduced federal tax rate of 22.12 per cent (21 per cent plus the surtax) plus the reduced average provincial tax rate of 9.7 per cent, plus a capital tax equivalent rate of 3.6 per cent.

Sources: *KPMG Corporate Tax Rate Survey* (January 2000); Ernst & Young International Tax Service; OECD Tax Database; Department of Finance calculations.

Canada Pension Plan/Quebec Pension Plan Deduction for the Self-Employed

Under the Canada Pension Plan and Quebec Pension Plan (C/QPP), self-employed individuals are required to pay both the employer and employee portion of C/QPP contributions. However, self-employed individuals cannot deduct the employer share of C/QPP contributions paid for their own coverage. They must instead claim a credit for this amount at the lowest tax rate.

As a result, self-employed individuals are disadvantaged relative to owner-operators who are also employees of their corporation. This disadvantage stems from the fact that employer C/QPP contributions paid for the coverage of the owner-operator are business expenses for the corporation and, as such, are fully deductible.

It is proposed that self-employed individuals be permitted, as of January 1, 2001, to deduct the portion of C/QPP contributions that represents the employer's share. The portion of their C/QPP contribution that represents the employee's share will continue to qualify for a tax credit, as it does for other taxpayers.

Federal Tax Credit for Flow-Through Share Investors

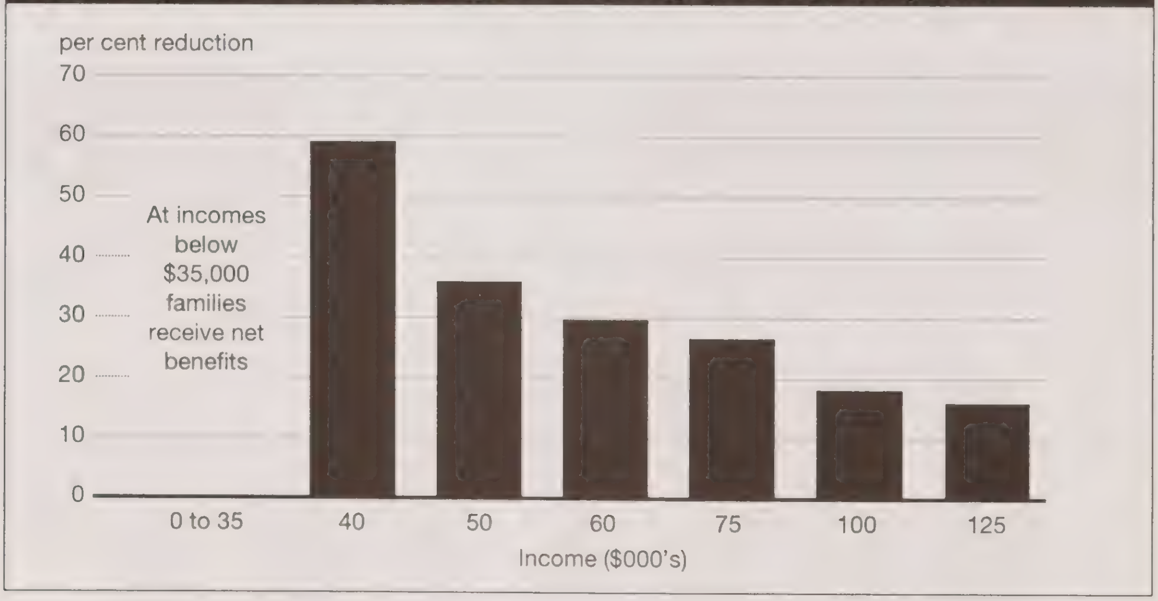
Mineral exploration activity in Canada has been very low in recent years. Rural communities across Canada that depend on mining have been hard hit. Several of these communities along with some provincial governments and industry associations, as well as the recent Federal-Provincial Mines Ministers Conference, have recommended additional tax assistance be provided for individuals investing in flow-through shares.

The Government proposes to introduce a new temporary investment tax credit at the rate of 15 per cent for specified mineral exploration expenses incurred in Canada pursuant to a flow-through share agreement. The flow-through share investor will then be able to use this tax credit to reduce federal tax otherwise payable. The new federal credit will be applicable to eligible expenses incurred prior to 2004. Further details are provided in Annex 2.

Examples of Combined Tax Reductions for Typical Individuals and Families

The 2000 budget and this Statement propose measures that will deliver substantial tax relief in a progressive manner. Individuals and families with the greatest need would receive the largest proportional tax cuts. Chart 5.3 provides information on the extent of tax relief for a one-earner family of four, and is followed by some representative examples. Detailed impact tables for typical individuals and families are provided in Annex 2.

Chart 5.3
Tax Reductions Are Proportionately Larger at Lower Incomes
(One-Earner Family of Four)
Percentage Tax Reductions Resulting From 2000 Budget and Statement by 2004



Typical Examples

One-Earner Family of Four – Income of $40,000

	2001	2004
	(dollars)	
Pre-2000 budget		
Total net federal tax (tax minus CCTB and GST credit)	**3,325**	**3,325**
2000 budget		
Reduction in tax	-377	-912
Increase in CCTB	-261	-676
Other indexation	-29	-155
Total net federal tax reduction	**-667**	**-1,743**
Statement[1]		
Reduction in tax	-330	-226
NCB/CCTB enhancement[2]	-62	
Total net federal tax reduction	**-392**	**-226**
Total net federal tax reduction with 2000 budget and Statement	**-1,059**	**-1,969**
Total net federal tax after 2000 budget and Statement	**2,266**	**1,356**

[1] Net tax reduction under the Statement can be higher in 2001 than in 2004, because 2001 impacts include the acceleration of measures announced in the 2000 budget (e.g., eliminating the surtax, lowering the middle rate to 23 per cent). Because the 2000 budget committed to have these measures in place by 2004, they are attributed to the 2000 budget tax reduction line for 2004.

[2] The track shown may include: the increase in the NCB supplement; the changes in the NCB supplement reduction rate; the effect of indexation over time; and the switch from the Statement to the 2000 budget as explained in footnote number 1.

- The information provided above compares the tax that would be paid by a one-earner family of four earning $40,000 in 2001 and 2004, with and without the tax reductions announced in the 2000 budget and the Statement.
- The measures announced in the 2000 budget will reduce the family's tax by $667 in 2001.
- The Statement will provide an additional $392 in tax reduction in 2001, for a total tax reduction in 2001 of $1,059.
- Without the measures announced in the 2000 budget or this Statement, this family would have paid $3,325 in net federal personal income tax in 2004. As a result of the 2000 budget and the Statement, this family will instead pay $1,356 in net federal personal income tax, a reduction of $1,969 or 59 per cent.

Two-Earner Family of Four – Income of $60,000

	2001	2004
	(dollars)	
Pre-2000 budget		
Total net federal tax (tax minus CCTB and GST credit)	**5,753**	**5,753**
2000 budget		
Reduction in tax	-305	-813
Increase in CCTB	-253	-789
Total net federal tax reduction	**-558**	**-1,602**
Statement[1]		
Reduction in tax	-401	-337
NCB/CCTB enhancement[2]	-62	
Total net federal tax reduction	**-463**	**-337**
Total net federal tax reduction with 2000 budget and Statement	**-1,021**	**-1,939**
Total net federal tax after 2000 budget and Statement	**4,732**	**3,814**

[1] Net tax reduction under the Statement can be higher in 2001 than in 2004, because 2001 impacts include the acceleration of measures announced in the 2000 budget (e.g., eliminating the surtax, lowering the middle rate to 23 per cent). Because the 2000 budget committed to have these measures in place by 2004, they are attributed to the 2000 budget tax reduction line for 2004.

[2] The track shown may include: the increase in the NCB supplement; the changes in the NCB supplement reduction rate; the effect of indexation over time; and the switch from the Statement to the 2000 budget as explained in footnote number 1.

- The information provided above compares the tax that would be paid by a two-earner family of four earning $60,000 in family income in 2001 and 2004, with and without the tax reductions announced in the 2000 budget and the Statement. In this example, one spouse is assumed to earn $36,000 while the other spouse earns $24,000.
- The measures announced in the 2000 budget will reduce the family's tax by $558 in 2001.
- The Statement will provide an additional $463 in tax reduction in 2001, for a total tax reduction in 2001 of $1,021.
- Without the measures announced in the 2000 budget or this Statement, this family would have paid $5,753 in net federal personal income tax in 2004. As a result of the 2000 budget and the Statement, this family will instead pay $3,814 in net federal personal income tax, a reduction of $1,939 or 34 per cent.

Single Parent With One Child – Income of $25,000

	2001	2004
	(dollars)	
Pre-2000 budget		
Total net federal tax (tax minus CCTB and GST credit)	**-1,407**	**-1,407**
2000 budget		
Reduction in tax	-88	-258
Increase in CCTB	-306	-448
Other indexation	-33	-66
Total net federal tax reduction	**-427**	**-773**
Statement[1]		
Reduction in tax	-57	-62
NCB/CCTB enhancement[2]	-100	-106
Relief for heating expenses	-250	
Total net federal tax reduction	**-407**	**-168**
Total net federal tax reduction with 2000 budget and Statement	**-834**	**-941**
Total net federal tax after 2000 budget and Statement	**-2,241**	**-2,348**

1 Net tax reduction under the Statement can be higher in 2001 than in 2004, because 2001 impacts include the acceleration of measures announced in the 2000 budget (e.g., eliminating the surtax, lowering the middle rate to 23 per cent). Because the 2000 budget committed to have these measures in place by 2004, they are attributed to the 2000 budget tax reduction line for 2004.

2 The track shown may include: the increase in the NCB supplement; the changes in the NCB supplement reduction rate; the effect of indexation over time; and the switch from the Statement to the 2000 budget as explained in footnote number 1.

- The information provided above compares the benefits that would be received by a single parent, with one child, earning $25,000 in 2001 and 2004 with and without the tax reductions announced in the 2000 budget and this Statement.
- The measures announced in the 2000 budget will provide $427 in tax relief in 2001.
- The Statement will provide an additional $407 in net benefits in 2001, including the one-time relief for heating expenses, for a net benefit increase in 2001 of $834.
- Without the measures announced in the 2000 budget or the Statement, this single parent would have received $1,407 in net benefits in 2004. As a result of the 2000 budget and the Statement, this single parent will see their net benefits increase by $941 to $2,348.

Single Parent With One Child – income of $33,000

	2001	2004
	(dollars)	
Pre-2000 budget		
Total net federal tax (tax minus CCTB and GST credit)	**894**	**894**
2000 budget		
Reduction in tax	-88	-274
Increase in CCTB	-257	-720
Other indexation	-118	-220
Total net federal tax reduction	**-463**	**-1,214**
Statement[1]		
Reduction in tax	-132	-121
NCB/CCTB enhancement[2]	-142	-54
Relief for heating expenses	-250	
Total net federal tax reduction	**-524**	**-175**
Total net federal tax reduction with 2000 budget and Statement	**-987**	**-1,389**
Total net federal tax after 2000 budget and Statement	**-93**	**-495**

[1] Net tax reduction under the Statement can be higher in 2001 than in 2004, because 2001 impacts include the acceleration of measures announced in the 2000 budget (e.g., eliminating the surtax, lowering the middle rate to 23 per cent). Because the 2000 budget committed to have these measures in place by 2004, they are attributed to the 2000 budget tax reduction line for 2004.

[2] The track shown may include: the increase in the NCB supplement; the changes in the NCB supplement reduction rate; the effect of indexation over time; and the switch from the Statement to the 2000 budget as explained in footnote number 1.

- The information provided above compares the benefits that would be received by a single parent, with one child, earning $33,000 in 2001 and 2004 with and without the tax reductions announced in the 2000 budget and this Statement.
- The measures announced in the 2000 budget will provide $463 in tax relief in 2001.
- The Statement will provide an additional $524 in net benefits in 2001, including the one-time relief for heating expenses, for total benefits in 2001 of $987.
- Without the measures announced in the 2000 budget or the Statement, this single parent would have paid $894 in net federal personal income tax in 2004. As a result of the 2000 budget and the Statement, this single parent will no longer pay net federal tax and will receive net benefits of $495 in 2004.

6

Key Investments

Highlights

- *Since the federal budget was balanced in 1997-98, nearly three-quarters of all new spending has been directed towards health care, children and education.*

- *On September 11, 2000, Canada's First Ministers reached historic agreements on health renewal and early childhood development. To support these agreements, the federal government is committing $23.4 billion through to 2005-06, one of the largest single expenditures by any Canadian government in the country's history:*
  - *$21.1 billion of new funding, over the next five years, through the Canada Health and Social Transfer, to ensure that Canadians receive the high quality care they deserve, to increase the number of doctors and nurses, to shorten waiting lists, and to reduce the time spent in emergency rooms;*
  - *includes $2.2 billion for early childhood development; and*
  - *$2.3 billion of targeted funding to purchase medical equipment, improve information systems supporting health services and accelerate changes in the way primary care is provided to Canadians.*

- *This Economic Statement introduces further measures to assist families with children, to support education, research and innovation and to protect Canada's environment.*

- *To provide more help to low-income families with children, the National Child Benefit supplement will increase by a further $100 per child in 2001. This will bring the total maximum benefit available for the first child to more than $2,500 by 2004. Benefits for additional children will also increase.*

- *To improve the accessibility of higher education to all Canadians, the Government will double the education amount subject to a tax credit for full-time and part-time students. This will provide almost $1 billion to over 1 million students during this and the next four years.*

- *To promote excellence in research all across Canada, the federal government will provide:*
  - *$400 million to the Canada Foundation for Innovation (CFI) to help fund the operating costs of research infrastructure at universities and other post-secondary institutions;*
  - *$100 million to the Foundation to support Canadian participation in international research projects; and*
  - *$100 million over five years for the Social Sciences and Humanities Research Council.*

- *The CFI will be authorized to use $100 million of the additional funding provided in Budget 2000 to support 100 per cent of the capital costs in Canada for collaborative research projects between Canadian universities and leading facilities in other countries. In addition, the CFI is allocating $250 million of the funds provided in Budget 2000 for infrastructure awards to Canada Research Chairs, with no matching funding requirement for Chairs at smaller universities.*

- *To address key environmental challenges such as climate change and air pollution, the Government will provide an additional $500 million as its contribution to the First Business Plan of the National Implementation Strategy on Climate Change.*

Introduction

The economic plan underpinning this Economic Statement proposes to focus new federal spending on two priority fronts: the core social infrastructure of Canada, and education, research and innovation, which are essential to a knowledge-based economy.

This chapter sets out key federal investments in the areas of health care, early childhood development, post-secondary education, research and innovation, and the environment.

Federal Support for Health Care Renewal

On September 11, 2000, Canada's First Ministers reached a landmark agreement on a shared approach and action plan for renewing health care services and reporting to Canadians on progress made.

The Government of Canada, for its part, announced $23.4 billion of new federal investments over five years to support this health agreement, together with an agreement on early childhood development (described in the next section). This is one of the largest single expenditures by any Canadian government in our country's history. Legislation to give effect to these investments was tabled in Parliament on October 4, 2000.

The new federal investments will consist of two major components:

- $21.1 billion of general funding, over five years, through the Canada Health and Social Transfer (CHST), including $2.2 billion for early childhood development. Annual CHST cash will rise from $15.5 billion today to $21 billion in 2005-06 – a 35-per-cent increase.

- $2.3 billion of targeted funding to purchase up-to-date medical equipment, improve information systems supporting health services and accelerate changes in the way primary health care is provided to Canadians. Details on these investments are provided below.

To support the acquisition of necessary **medical diagnostic and treatment equipment** (such as MRI machines, CAT scanners, radiation therapy machines, and other diagnostic or treatment equipment) the Government of Canada is providing a $1-billion fund for provinces and territories to draw down over 2000-01 and 2001-02. This funding will be available as soon as the necessary legislation is passed, allowing provinces and territories to start making immediate acquisitions.

To support innovation and reforms in **primary care** for Canadians – the front line services offered usually by family physicians – the Government of Canada will invest $800 million over four years, starting in 2001-02, in a renewed Health Transition Fund. This fund will support provincial and territorial innovations to ensure timely access to services outside expensive emergency departments and greater use of integrated teams of physicians, nurses, physiotherapists and other health professionals.

Finally, to expand the use of **information and communications technologies** in improving the quality, access and timeliness of care, the federal government will make a one-time investment of $500 million in an independent corporation mandated to develop and spread the use of common, pan-Canadian information standards and compatible communications technologies. Development of the groundwork for electronic patient records will be a key priority.

Other Recent Federal Health Investments

- The CHST has been enhanced four times since its creation in 1996. In that same year, the Government set an $11-billion cash floor, which was subsequently raised to $12.5 billion in the 1998 budget. Then the Government added $11.5 billion for health over five years in the 1999 budget, and a further $2.5 billion for health and post-secondary education in the 2000 budget.
- Beyond the CHST, the federal government has increased significantly its direct programs and services in health and health care: health protection, disease strategies, research, tax support, and services for First Nations.
- These direct new investments total $1.1 billion this year, and will increase to $1.3 billion when they are fully mature in 2001-02.

The Canada Health and Social Transfer: A Growing, Stable, Predictable Funding Framework for Provinces and Territories

The CHST is the main program through which the federal government supports health renewal and early childhood development. The federal funding commitment of September 11 will ensure growing support over the next five years, in the form of both cash and tax points.

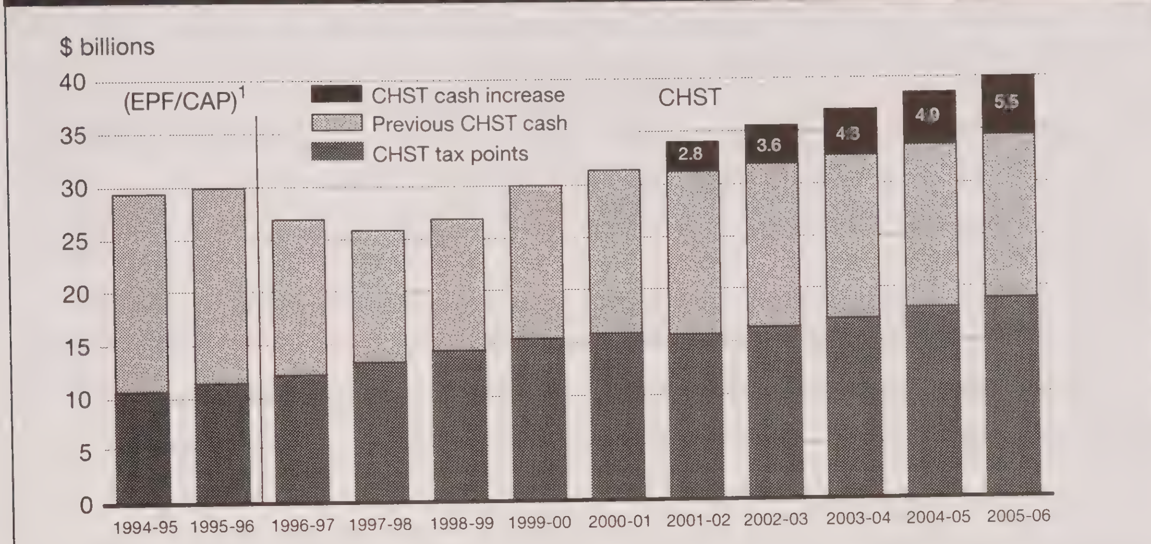
This year CHST cash is $15.5 billion. In 2005-06, CHST cash will reach $21 billion – a 35-per-cent increase. This year CHST tax points are worth $15.9 billion. By 2005-06, tax points will reach an estimated value of $18.9 billion – an increase of 19 per cent.

As a result, total CHST – cash and the value of the tax points transferred to the provinces and territories – will reach $39.9 billion in 2005-06, compared to $31.4 billion this year.

The Growing Contribution of CHST Tax Points

- Roughly half of the CHST support to provinces and territories takes the form of tax points.
- A major tax point transfer occurred in 1977, when the federal government reduced its tax rates by an agreed amount, so that provinces and territories could increase theirs by an equivalent amount.
- As a result, tax revenues that used to flow to the federal government now accrue instead to provincial and territorial governments.
- The tax point component of the CHST grows every year at about the same rate as the Canadian economy.

Canada Health and Social Transfer (CHST)



[1] Established Programs Financing (EPF) and Canada Assistance Plan (CAP) transfers to provinces were replaced by the CHST in 1996.

The Government of Canada will also provide increased planning stability for provincial and territorial governments to provide services to Canadians.

The current CHST legislative framework, set to expire in 2003-04, will be extended for another two years, thus providing a new five-year funding plan. In addition, the Government has committed to a mid-term review in 2003-04, when it will establish funding levels for two additional years (2006-07 and 2007-08).

Provinces and territories are thus being provided with a rolling five-year planning framework to fund core social programs for Canadians.

Funding Commitments of the Government of Canada to Accompany the Agreements on Health Renewal and Early Childhood Development

	Current legislation				Beyond current legislation		Total new cash
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	
	(billions of dollars)						
Canada Health and Social Transfer[1]							
Current cash[2]	15.5	15.5	15.5	15.5	15.5[3]	15.5[3]	–
General cash increase	–	2.5	3.2	3.8	4.4	5.0	18.9
Early childhood development		0.3	0.4	0.5	0.5	0.5	2.2
Total CHST Cash	15.5	18.3	19.1	19.8	20.4	21.0	–
Medical Equipment Fund	0.5	0.5	–	–	–	–	1.0
Health information technology	0.5	–	–	–	–	–	0.5
Health Transition Fund for primary care	–	0.2	0.2	0.2	0.2	–	0.8
Total Cash[4]	16.5	19.0	19.3	20.0	20.6	21.0	–
CHST tax point transfers	15.9	15.7	16.4	17.2	18.1	18.9	–
Total CHST entitlements	31.4	34.0	35.5	37.0	38.5	39.9	–
Total Funding	32.4	34.7	35.7	37.2	38.7	39.9	23.4

[1] The CHST supports provincial/territorial programs in the areas of health, post-secondary education and social services.

[2] Current cash includes both CHST supplements of Budget 1999 ($3.5 billion) and Budget 2000 ($2.5 billion).

[3] Existing legislation extends to 2003-04. $15.5 billion is base cash for subsequent years.

[4] Sum of total CHST cash transfers and funding for non-CHST measures.

Reporting to Canadians on Results

All governments have agreed to a framework for reporting to Canadians on progress made with respect to health care renewal.

Governments will report to Canadians, not to each other. This reporting will be based on comparable indicators, so that Canadians will be able to see for themselves how all governments are following through on their commitments to health care renewal. Specifically:

- how much money is being spent;
- how well services are being delivered (e.g., waiting times for health care); and
- how effective this is in improving the health of individual Canadians (e.g., life expectancy, infant mortality indicators).

Federal Support for Education, Research and Innovation

Growth in Canada's economy is increasingly fuelled by highly educated and skilled workers and entrepreneurs who transform new ideas into innovative technologies, products and services that are successfully marketed at home and abroad. This process is affecting how we work and live. It is creating new opportunities as well as challenges for all Canadians, including students, workers, entrepreneurs and communities. Our success as individuals and as a country in this new economy rests on the knowledge, skills and education of all Canadians.

The Government of Canada plays an important role in supporting the accessibility of post-secondary education for all Canadians, as well as promoting excellence in research.

The federal government has already done much in the last three budgets to help ensure that all Canadians have the opportunity to acquire the skills and knowledge they need. In 1998, the Government introduced the Canada Education Savings Grant (CESG) to provide support for families saving for their children's education in Registered Education Savings Plans (RESPs). The CESG provides a grant of 20 per cent on the first $2,000 of annual contributions made to RESPs. It has been extremely successful in encouraging Canadians to save for education: the number of institutions offering RESPs has risen from 30 to 70 since the grant was introduced, and the industry reports that the number of families using RESPs has grown to over 1 million.

To further help students and those who support them, the Government proposes to double the education credit for 2001 and subsequent taxation years. Specifically, for full-time students, the education amount – the amount used to calculate the education credit – will double to $400 per month from $200. This represents a five-fold increase since 1995, when the amount was $80. For part-time students, the amount will double to $120 from $60 per month.

The education credit helps defray the non-tuition costs of post-secondary education and training, such as textbooks. This increase in the credit will benefit over 1 million students and will provide almost $1 billion of assistance over this and the next four years.

In 1997, universities asked the Government to share in the costs of creating world-class facilities so that they could attract and retain leading researchers. The Government responded by creating the Canada Foundation for Innovation (CFI), and has since invested a total of $1.9 billion in the Foundation. This initiative has been complemented by both provincial and private sector investments.

Recipients of CFI awards have indicated that this new investment has created additional demands for operating and maintenance costs for research infrastructure, and this is constraining their overall research effort. Therefore, the Government is proposing to enable the Foundation to provide grants to universities and research hospitals toward the operating costs of new facilities, funded through an additional investment of $400 million.

Research is also an international endeavour, and Canadians need access to the world's best facilities to stay at the leading edge of new knowledge. As a result, the Government will provide a further $100 million to the Foundation and proposes to authorize it to support Canadian participation in major international research projects.

This new investment complements the allocation by the Foundation of up to $100 million of the additional funding it received in Budget 2000 toward the capital costs in Canada of large collaborative international research projects between Canadian universities and leading facilities in other countries.

Government Investments in the CFI to Date (Total $2.4 Billion)

1997 budget	1999 budget	2000 budget	2000 Statement	Total to date
		($ millions)		
800	200	900	500	2,400

Discovery is not possible without the ingenuity of world-leading researchers. For this reason, the Government invested $900 million over five years in Budget 2000 to establish and sustain 2,000 new Canada Research Chairs. To further this effort, the CFI will allocate $250 million from funding provided in Budget 2000 to provide new facilities and equipment for each recipient of a Canada Research Chair. With no matching funding requirement for this infrastructure for Chair recipients at smaller universities, this initiative has been designed to help support research Chairs at smaller Canadian universities.

Leadership in the new economy requires an understanding of the opportunities it offers, its educational requirements, the management skills required to seize those opportunities and how to make lifelong learning a reality. To keep Canada at the forefront of research into the knowledge economy, a targeted research initiative will be developed, to be managed by the Social Sciences and Humanities Research Council and funded with a special allocation of $100 million over five years.

Recent Federal Initiatives in Support of Education

Improving Access to Post-Secondary Education

- The **Canada Education Savings Grant** – a grant of 20 per cent on the first $2,000 of contributions made each year to Registered Education Savings Plans – encourages and assists families in saving for their children's future education.
- **Canada Millennium Scholarships** provide over 90,000 needy students each year with scholarships averaging $3,000 a year to reduce the debt that they would otherwise have incurred.
- **Canada Study Grants** of up to $3,000 provide assistance to about 25,000 students with dependants.
- **Tax support for post-secondary education** provides assistance through increases in the education tax credit, broadening of the tuition credit, and an increase in the scholarship exemption to make education more affordable.
- Changes to the **Canada Student Loans Program** help graduates to manage their student debt by:
  - increasing the number of people eligible for interest relief;
  - providing debt reduction of up to 50 per cent of Canada Student Loans outstanding – up to a maximum of $10,000 – for those in extended financial difficulty; and
  - a new tax credit for interest paid on federal and provincial student loans.
- Tax-free Registered Retirement Savings Plan withdrawals and an extension of the education credit and child care expense deduction to part-time students **help Canadians upgrade their skills** right through their working lives.

Excellence in Research

- To support researchers:
  - funding of $900 million over five years for 2,000 new Canada Research Chairs;
  - creation of the Canadian Institutes of Health Research with an additional $225 million per annum earmarked to support its objectives; and
  - over $200 million each year for advanced research in the natural sciences, engineering, and social sciences and humanities.
- To modernize research infrastructure:
  - including this Statement, investments of $2.4 billion in the Canada Foundation for Innovation; and
  - $160 million in Genome Canada, a non-profit corporation that supports research in genomic science.

Federal Support for Children: Early Childhood Development and Other Investments

Early Childhood Development

Providing children with a good start in life is crucial for their well-being and their future capacity to learn and contribute to society. First Ministers have committed[1] to working together to help all sectors of society support children in their early years, and to make incremental investments in this area.

For its part, the Government of Canada will contribute to the provinces and territories $2.2 billion over five years, as part of the CHST, to be focused on the four key priorities identified by Canada's First Ministers:

- support for mothers and their infants during pregnancy, birth and early infancy;
- improved parenting and family supports, such as resource centres, parent information and home visits;
- strengthened early childhood development learning and care, so as to increase children's readiness to learn once they reach school; and
- community support measures, such as parent-child activity programs, streetproofing programs and family-friendly businesses and communities.

As with health care renewal, Canada's First Ministers committed to reporting to Canadians on progress made.

In addition to this collaborative effort with provincial and territorial governments, the Government of Canada is taking the following actions to increase support for Canada's children and their parents.

National Child Benefit Supplement

The Government will increase the National Child Benefit supplement by $100 per child, effective July 1, 2001. This increase, which is on top of the $200 increase already scheduled for that date, will bring the total value of the supplement to $1,255 for the first child. This will bring the maximum Canada Child Tax Benefit for the first child to $2,372 in July 2001 and to more than $2,500 by July 2004, with corresponding increases for additional children.

[1] The Premier of Quebec indicated on September 11 that "while Quebec shares the same concerns [as other provinces] on early childhood development, it does not adhere to the present federal-provincial-territorial document because sections of it infringe on its constitutional jurisdiction on social matters."

Employment Insurance Support for Parents

Parents will also benefit from changes to the employment insurance (EI) legislation currently before Parliament. Parents receiving maternity or parental benefits will not be subject to the clawback rules, and EI rules will be changed to make it easier for them to access EI regular benefits if they return to the labour force after an extended absence for raising children.

Recent Federal Investments in Children

Income Support

- **Canada Child Tax Benefit (CCTB)** – The primary federal program for helping parents meet the costs of raising children. It consists of two parts, a base benefit targeted to all low- and middle-income families, and a National Child Benefit (NCB) supplement targeted especially to low-income families. Funding for the CCTB has been increased in each of the last three budgets.
- **NCB supplement** – Provides additional benefits for low-income parents. This supplement was introduced in 1997 as part of the federal-provincial-territorial agreement referred to as the National Child Benefit System. As a result, provincial and territorial governments are able, in a co-ordinated fashion, to adjust their income support programs and redirect funds in order to extend to low-income working parents a range of services and benefits for children formerly available only to families on welfare.
- Recent increases in both components of the CCTB will have raised child benefits from a maximum of $1,520 in 1996 to $2,400 by 2004. This Economic Statement will now bring that maximum benefit to more than $2,500 for the first child by 2004, with corresponding increases for additional children.
- **Employment Insurance (EI)** – Parental benefits have been extended by 25 weeks, from 10 to 35 weeks. Combined with maternity benefits, this extends child-related leave from six months to one year.
- **EI Family Supplement** – For low-income recipients of EI with children: $110 million annually

Services

- **Canada Prenatal Nutrition Program** – Food supplementation, nutrition counselling and other services for at-risk pregnant women: $37.5 million annually.
- **Community Action Program for Children** – Funding for community groups to address developmental needs of young children at risk: $56 million annually.
- **Aboriginal Head Start Program** – To help prepare young Aboriginal children on and off reserve for their school years: $47.5 million annually.

Proposed Changes to Employment Insurance

The Government recently tabled in Parliament legislation to change EI. This legislation will eliminate the intensity rule so that as of October 1, 2000, all EI claimants will receive 55 per cent of their insurable earnings.

In addition, the Government will modify the clawback provision so as to:

- exempt first-time claimants from the benefit repayment; and
- claw back benefits only if the claimant's net income is greater than $48,750, and limit the maximum repayment to 30 per cent of a person's benefits.

To further support parents, the legislation provides that:

- maternity and parental benefits are not subject to the clawback rule; and
- parents who return to work after an extended absence for raising children find it easier to access regular EI benefits.

Federal Support for the Environment

The quality of life for all Canadians is closely tied to preserving and improving our natural environment. Building on recent investments, an additional $500 million will be provided over the next five years as the federal contribution to the First Business Plan of the National Implementation Strategy on Climate Change. Combined with expected contributions from provincial and territorial governments and the private sector, these funds will contribute to reducing greenhouse gas emissions and air pollutants in a cost-effective and sustainable manner. Funds will be invested in all sectors of the economy to promote greater energy efficiency, develop renewable and alternative sources of energy, and support new environmental technologies and science.

Together with the $700 million for new environmental initiatives announced in the last budget, the Government's total investment in environmental measures this year is $1.2 billion.

Recent Federal Initiatives in Support of the Environment

More than $1 billion in funding, including:

- An initial $100 million for the **Sustainable Development Technology Fund**, to stimulate the development and demonstration of promising new environmental technologies.
- A contribution of $60 million to the **Canadian Foundation for Climate and Atmospheric Sciences** to support academic research on climate change and air pollution.
- $25 million for the **Green Municipal Enabling Fund** and $100 million for the **Green Municipal Investment Fund** to help communities determine the feasibility of, and best approaches to, renewable energy, building retrofit, water conservation, waste management and urban transit projects.
- $150 million to renew the **Climate Change Action Fund** and $60 million for energy efficiency and renewable energy programs to lay the foundation for future greenhouse gas emission reductions by facilitating the development of technologies and supporting energy efficiency and renewable energy projects.
- $90 million allocated for the **National Strategy on Species at Risk** to support critical habitat stewardship programs and other species protection activities.

Looking Ahead

Since the federal budget was balanced in 1997-98, nearly three-quarters of all new spending has been directed towards health care, children and education. Looking ahead, the federal government will continue to invest in these sectors, which are so critical for the ability of Canadians to participate, lead and excel in the new economy.

Since 1997, the Government has made many investments in education, ranging from early childhood development to financial assistance for students and measures to encourage lifelong learning. One of the most successful federal programs is the CESG. As well, through the tax system, the Government encourages lifelong learning by permitting Canadians to temporarily withdraw funds from their RRSPs to finance a return to school and by supporting savings through RESPs for education and skills improvement. The Government will continue to examine the effectiveness of ways to assist Canadians to save for their education and training needs.

The Government has invested significantly over the past four years in rebuilding Canada's research infrastructure and in expanding the nation's research capacity. As success in the new global economy increasingly turns on the pursuit of knowledge and its uses in the marketplace, the Government will make further investments to expand world-class research opportunities in Canada. The Government will do even more to foster innovation, encourage research and development investment, and facilitate the commercialization of knowledge and research. As part of these efforts, we will continue to work with universities and other post-secondary institutions to examine ways of further supporting their research activities.

Our agricultural sector and rural Canada generally face tremendous challenges. Canada has been at the forefront in condemning the policies of countries that provide massive, trade-distorting subsidies to their producers. We will continue to do so. Looking ahead, the Government will take into account and carefully monitor the impact of international developments on the economic prospects for Canada's farmers.

Sound infrastructure investment to sustain the nation's growth and our quality of life is key to our future. In Budget 2000, the federal government announced $2.65 billion in funding for municipal infrastructure and highways over the next six years. The Government will continue to examine ways to sustain investments in key strategic infrastructure, particularly by encouraging public-private partnerships.

Spending Initiatives Proposed Since the 2000 Budget

	2000-01	2001-02	2002-03
	(millions of dollars)		
Improving the quality of life for Canadians and their children			
Canada Health and Social Transfer		2,800	3,600
Other health initiatives	1,500	200	200
Employment insurance benefits	200	450	500
Relief for heating expenses	1,345		
Total	3,045	3,450	4,300
Making Canada's economy more innovative			
Investing in research and innovation	500	20	20
Investing in a clean environment		100	100
Total	500	120	120
Total	**3,545**	**3,570**	**4,420**

Annex 1

Spending, Tax Relief and Debt Reduction Since the 1997 Budget

The following tables present the fiscal impact of the spending, tax relief and debt reduction initiatives since 1997-98 – the first year a budgetary surplus was recorded since 1969-70. They show the various initiatives undertaken in the 1998, 1999 and 2000 budgets, and the 2000 Statement, as well as cumulative totals.

Table A1.1 summarizes the fiscal impact of the initiatives over the period 1997-98 to 2002-03. In addition, it shows the reduction in public debt realized to the end of 1999-2000 and the commitment in this Statement to reduce public debt by at least $10 billion in 2000-01.

Tax relief since 1997-98 has been of two forms – targeted tax relief and general tax relief. Targeted tax relief measures include the Canada Child Tax Benefit, the education credit, the credit for interest on student loans, and the caregiver tax credit, among others. While netted against revenues in the Government's financial statements, these targeted tax relief measures in many respects share features similar to spending initiatives. They provide benefits to targeted groups – benefits which could be delivered through spending programs. Consistent with this approach, the relief for heating expenses is treated as targeted tax relief in Table A1.1. It will be delivered through the tax system to individuals and families receiving payments under the goods and services tax credit. This relief will be recorded as part of program spending.

In contrast, general tax relief affects the basic parameters of the income tax system and provides benefits to a large number of taxpayers. This includes changes to the tax rates, the amount of income that a taxpayer can earn tax-free and the elimination of the surtax. As a result, the overall allocation of the initiatives between spending, tax relief and debt reduction is affected by whether the targeted tax relief measures are included as tax reduction or spending. Table A1.1 shows it both ways.

The cumulative amount of spending, tax relief and debt reduction over the 1997-98 to 2002-03 period is $170.1 billion. With targeted tax measures included in spending, the cumulative amount of spending initiatives is $79.0 billion – 46.5 per cent of the total – compared to general tax relief and EI premium rate reductions of $62.4 billion and debt reduction of $28.7 billion – 53.5 per cent of the total.

If the targeted tax relief measures are included as part of overall tax relief, new spending initiatives amount to $65.4 billion – 38.4 per cent of the total – tax reduction amounts to $76 billion and debt reduction amounts to $28.7 billion – 61.6 per cent of the total. The debt reduction total includes the actual reduction in public debt to date and the $10 billion commitment for 2000-01.

Table A1.1
Cumulative Amount of Spending, Tax Relief and Debt Reduction From 1997-98 to 2002-03

	Tax expenditures			
	as tax reduction		as spending	
	billions of dollars	per cent of total	billions of dollars	per cent of total
Spending initiatives				
Improving the quality of life of Canadians	39.3	23.1	49.3	29.0
Making Canada's economy more innovative	18.4	10.8	21.9	12.9
Providing essential public services	7.7	4.5	7.7	4.5
Total spending initiatives	65.4	38.4	79.0	46.5
Tax expenditures and general tax relief				
Tax expenditures				
Making Canada's economy more innovative	3.4	2.1		
Improving the quality of life of Canadians	10.0	5.9		
Tax fairness measures	0.2	0.1		
General tax relief	46.2	27.1	46.2	27.2
EI premium reductions	16.2	9.5	16.2	9.5
Total tax initiatives	76.0	44.7	62.4	36.6
Debt reduction	28.7	16.9	28.7	16.9
Total	**170.1**	**100.0**	**170.1**	**100.0**

Note: Numbers may not add due to rounding.

Table A1.2
Spending and Tax Initiatives Since the 2000 Budget

	2000-01	2001-02	2002-03
		(millions of dollars)	
Spending initiatives			
Improving the quality of life for Canadians and their children			
Canada Health and Social Transfer		2,800	3,600
Other health initiatives	1,500	200	200
Employment insurance benefits	200	450	500
Heating expense relief	1,345		
Total	3,045	3,450	4,300
Making Canada's economy more innovative			
Canada Foundation for Innovation	500		
Social Sciences and Humanities Research Council		20	20
Clean environment		100	100
Total	500	120	120
Total spending initiatives	3,545	3,570	4,420
Tax expenditures and general tax actions			
Improving the quality of life for Canadians and their children			
Canada Child Tax Benefit		260	355
Caregiver credit/disabilities	25	100	110
Total	25	360	465
Making Canada's economy more innovative			
Education credit	10	225	230
Capital gains inclusion rate	20	175	485
Flow-through shares	5	35	40
Total	35	435	755
General tax relief and fairness measures			
Personal income tax relief	1,395	5,745	6,380
Corporate income tax reductions		160	1,140
Reduction in EI premium rates[1]	100	300	
Total	1,495	6,205	7,520
Tax relief	1,555	7,000	8,740
Total	5,100	10,570	13,160

[1] Assumes employee premium rate of $2.25 for 2001, $2.20 for 2002 and $2.10 for 2003.

Table A1.3
Spending and Tax Initiatives: February 2000 Budget

	1999-00	2000-01	2001-02	2002-03
		(millions of dollars)		
Spending initiatives				
Improving the quality of life for Canadians and their children				
Canada Health and Social Transfer[1]	2,500			
Support for families with children			607	965
Opportunities for Canadians with disabilities		33	37	32
Assisting the homeless	63	235	220	220
Total	2,563	268	863	1,217
Making the economy more competitive				
Investing in research and innovation				
Canada Foundation for Innovation	900			
Genome Canada	160			
Other	35	208	278	268
Total	1,095	208	278	268
Promoting environmental technologies and practices	235	148	143	159
Strengthening federal, provincial and municipal infrastructure		300	550	750
Total	1,330	656	971	1,177
Providing essential public services				
Defence	634	546	550	600
Economic adjustment	661	511	500	
Furthering international co-operation	175	110	155	200
Operating and capital	505	1,000	834	760
Total	1,974	2,167	2,039	1,560
Total spending initiatives	**5,867**	**3,091**	**3,873**	**3,953**
Tax expenditures and general tax actions				
Improving the quality of life for Canadians and their children				
Canada Child Tax Benefit		475	1,020	1,350
Making the economy more competitive				
Capital gains inclusion rate		15	135	230
Rollover of capital gains		20	75	75
Taxation of gains on qualifying stock options		10	75	75
Total		45	285	380
General tax relief and fairness measures				
Personal income tax relief		2,790	4,385	5,615
Corporate income tax reductions		-65	250	310
Fairness measures	-25	-55	-30	-25
Reduction in EI premium rates[2]	345	1,392	2,174	2,980
Total	320	4,062	6,779	8,880
Total tax initiatives	**320**	**4,582**	**8,084**	**10,610**
Total spending and tax initiatives	**6,186**	**7,672**	**11,957**	**14,563**

Note: Numbers may not add due to rounding.
[1] The 1999-2000 CHST cash supplement was paid into a third-party trust in 2000-01.
[2] Assumes a 10-cent-per-year reduction in employee premium rates for 2001, 2002 and 2003.

Table A1.4
Spending and Tax Initiatives: February 1999 Budget

	1998-99	1999-2000	2000-01	2001-02	2002-03
			(millions of dollars)		
Building a secure society					
Strengthening health care for Canadians					
Canada Health and Social Transfer[1]	3,500		1,000	2,000	2,500
Other health care initiatives					
Improving health information systems	95	28	85	120	120
Promoting health-related research and innovation[2]	160	50	115	225	225
First Nations health services		20	60	110	110
Preventive and other health initiatives		49	104	134	134
Total	255	147	364	589	589
New partnerships with Aboriginal peoples		49	144	159	159
Crime prevention	13	95	128	159	159
Furthering international co-operation	187	55	80	80	80
Addressing environmental challenges	12	18	17	17	17
Other					
Equalization: technical improvements		48	97	145	194
Official languages in education		70	70	70	70
Parks Canada	35				
Compensation and benefit issues in the military		175	175	175	175
Total	4,002	658	2,074	3,393	3,942
Building a strong economy					
Building on the Canadian Opportunities Strategy					
Creating knowledge					
Canada Foundation for Innovation[2]	100				
Support for advanced research	16	50	55	55	55
Disseminating knowledge		27	42	27	27
Commercializing knowledge		121	232	317	317
Supporting employment		265	265	265	265
Total	116	463	594	664	664
Economic adjustment					
Canadian Fisheries Adjustment and Restructuring Program	600	355	116	48	
Agriculture Income Disaster Assistance Program	600	285	15		
DEVCO	41	5	21	21	21
Total	1,241	645	152	69	21
Total: Building a strong economy	1,357	1,108	746	733	685
Total spending initiatives	**5,358**	**1,766**	**2,820**	**4,126**	**4,627**
Tax expenditures and general tax actions					
Building a secure society					
Increase in Canada Child Tax Benefit			225	300	300
General tax relief and fairness measures					
Extension of $500 supplement to all taxpayers		665	1,110	1,290	1,499
Increase in tax-free income by $175		270	450	525	613
Elimination of 3-per-cent surtax		595	995	1,150	1,329
Tax fairness measures		15	25	100	100
Reduction in 1999 EI premiums[3]	300	1,250	1,250	1,250	1,250
Total	300	2,795	3,830	4,315	4,791
Total	**300**	**2,795**	**4,055**	**4,615**	**5,091**
Total spending and tax initiatives	**5,658**	**4,561**	**6,875**	**8,741**	**9,717**

Note: Numbers may not add due to rounding.
1 A CHST supplement in 1998-99 was paid to a third-party trust in 1999-2000.
2 An additional $200 million is being allocated to the Canada Foundation for Innovation. It is expected that about half will be used to improve infrastructure for health research.
3 Changed from 1999 budget.

Table A1.5
Spending and Tax Initiatives: February 1998 Budget

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
			(millions of dollars)			
The Canadian Opportunities Strategy						
Millennium Scholarship Foundation	2,500					
Canada Study Grants	100	100	100	100	100	100
Increased funding for granting councils	120	135	150	150	150	150
Student loans program	50	145	150	158	158	158
Canada Education Savings Grant[1]		267	511	744	979	1,164
Connecting Canadians to information and skills	55	60	70	75	75	75
Supporting youth employment		50	75	100	100	100
Total	2,555	647	1,036	1,319	1,562	1,747
Building a secure society						
Increase in CHST cash floor	200	900	1,500	1,500	1,400	1,200
Other health initiatives						
National AIDS Strategy		41	41	41	41	41
Canadian Breast Cancer Initiative		7	7	7	7	7
Sustaining Canada's blood system[1]		55	55	25	25	25
Hepatitis C[1]	800					
Tobacco Demand Reduction Strategy		10	10	10	10	10
Total	800	113	113	83	83	83
Total	1,000	1,013	1,613	1,583	1,483	1,283
Support for families						
Increased funding for employability						
Assistance for persons with disabilities		15	20	20	20	20
New partnership with Aboriginal peoples	350	126	126	126	126	126
Promoting Canadian culture and sports	43	103	153	153	153	153
Strengthening communities		42	67	67	67	67
Environmental efficiency and innovation		94	94	94	94	94
Furthering international co-operation	90	70	20	20	20	20
Total	1,483	1,463	2,093	2,063	1,963	1,763
Total spending initiatives	**4,038**	**2,110**	**3,129**	**3,382**	**3,525**	**3,510**

Table A1.5
Spending and Tax Initiatives: February 1998 Budget (cont'd)

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
			(millions of dollars)			
Tax expenditures and general tax actions						
The Canadian Opportunities Strategy						
Credit for interest on student loans		80	130	145	155	165
Lifelong learning (RRSPs)		15	40	45	50	55
Part-time education tax credit (includes part-time child care expense deduction)		25	90	90	90	90
EI premium holiday for youth			100	100		
Total		120	360	380	295	310
Building a secure society						
Deductibility of health/ dental insurance premiums			90	110	125	125
Caregiver tax credit		30	120	125	130	130
Canada Child Tax Benefit			320	750	850	850
Child care expense deduction		20	45	45	45	45
Disability measures		5	5	5	5	5
Alternative minimum tax and RRSPs		70	20	20	20	20
Emergency services		5	10	10	10	10
Total		130	610	1,065	1,185	1,185
General tax relief and fairness measures						
Eliminate surtax for taxpayers up to $50,000		710	1,175	1,365	1,430	1,498
Tax relief for low-income taxpayers		170	270	315	330	346
Reduction in EI premiums[1]	235	725	725	725	725	725
Tax fairness measures		-5	-25	30	35	41
Total	235	1,600	2,145	2,435	2,520	2,610
Total targeted and general tax actions	**235**	**1,850**	**3,115**	**3,880**	**4,000**	**4,105**
Total spending and tax actions	**4,273**	**3,960**	**6,244**	**7,262**	**7,525**	**7,615**

Note: Numbers may not add due to rounding.

[1] Revised from February 1998 budget.

Table A1.6

Summary of Spending and Tax Actions in 1998, 1999 and 2000 budgets, and 2000 Economic Statement and Budget Update

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Cumulative total
	(millions of dollars)						
Spending initiatives							
Building a secure society							
Strengthening health care for Canadians							
Canada Health and Social Transfer	200	4,400	4,000	2,500	6,200	7,300	24,600
Other health initiatives	800	368	260	1,947	872	872	5,118
Other	483	697	1,054	3,003	2,597	3,050	10,883
Total	1,483	5,465	5,313	7,450	9,669	11,221	40,601
Building a strong economy							
Canadian Opportunities Strategy	2,555	763	2,829	3,069	3,317	3,708	16,241
Economic adjustment		1,241	645	152	69	21	2,128
Total	2,555	2,004	3,474	3,221	3,286	3,729	18,369
Providing essential public services			1,974	2,167	2,039	1,560	7,739
Total spending initiatives	**4,038**	**7,469**	**10,761**	**12,837**	**15,093**	**16,509**	**66,708**
Tax expenditures and general tax relief							
Canadian Opportunities Strategy		120	360	460	1,015	1,445	3,400
Building a secure society							
Canada Child Tax Benefit			320	1,450	2,430	2,855	7,055
Other		130	290	340	435	445	1,640
General tax relief		880	2,975	8,355	15,265	18,730	46,205
Tax fairness measures		-5	-35	0	105	116	181
EI premium reductions	235	1,025	2,320	3,467	4,449	4,955	16,215
Total	**235**	**2,150**	**6,230**	**14,072**	**23,699**	**28,545**	**74,696**
Total spending and tax initiatives	**4,273**	**9,619**	**16,991**	**26,909**	**38,793**	**45,055**	**141,404**

Note: Numbers may not add due to rounding.

Annex 2

Tax Measures: Supplementary Information and Notice of Ways and Means Motion

Tax Measures: Supplementary Information

Overview

The Statement sets out measures to reduce tax rates, provide assistance to those in need, reward entrepreneurship and innovation and promote economic growth and job creation.

The Statement, combined with the 2000 budget, will provide $100 billion in cumulative tax relief by 2004-05. Canadians will see an average annual 21-per-cent reduction in their net personal income taxes by 2004-05. Families with children, and low- and middle-income Canadians, will receive larger tax cuts.

Tables A2.1 to A2.4 provide information on the extent of combined tax relief for Canadians in 2001 as a result of measures in this Statement and those in the 2000 budget tax reduction plan.

Tables A2.5 to A2.8 provide information on the extent of tax relief for Canadians next year as a result of measures in this Statement.

Tables A2.9 to A2.12 provide information on the extent of the tax relief for Canadians in 2004 as a result of the measures in this Statement and measures in all post-deficit budgets.

This annex also provides details on the following measures:

- enhancements to the Canada Child Tax Benefit;
- the reduction in the capital gains inclusion rate to 50 per cent;
- expansion of capital gains rollovers for small business investors;
- changes in the tax treatment of foreign spin-offs;
- development of a cross-border share-for-share exchange rule in consultation with the private sector; and
- a federal tax credit for flow-through shares.

The annex also includes a Notice of Ways and Means Motion on all the tax measures included in the Statement.

Table A2.1

Typical One-Earner Family of Four: Impact in 2001 of the Statement and the 2000 Budget

Total income	Federal tax pre-2000 budget	Reduce 17% rate to 16%	Increase personal amounts to $7,412 and $6,294	Increase brackets to $30,754 and $61,509	Reduce 26% rate to 22%	Eliminate surtax	Reduce 29% rate to 26% for incomes up to $100,000	Enhance Canada Child Tax Benefit	Other indexation	Provide heating expense relief	Total relief[1]	Total relief as a % of federal tax[2]
$	$	$	$	$	$	$	$	$	$	$	$	%
15,000	-4,410	-9	-83	0	0	0	0	-802	-40	-250	-1,184	–
20,000	-3,619	-56	-83	0	0	0	0	-802	-40	-250	-1,231	–
25,000	-2,024	-102	-83	0	0	0	0	-873	-40	-250	-1,349	–
30,000	-66	-145	-83	-41	0	0	0	-673	-124	-250	-1,316	–
35,000	1,675	-141	-83	-116	-170	0	0	-323	-124	-250	-1,208	-72.1
40,000	3,325	-138	-83	-116	-370	0	0	-323	-29	0	-1,059	-31.8
50,000	6,425	-138	-83	-116	-770	0	0	-323	0	0	-1,430	-22.3
60,000	9,549	-138	-83	-141	-1,170	0	0	-323	0	0	-1,855	-19.4
75,000	14,738	-145	-87	-196	-1,292	-25	-405	-305	0	0	-2,454	-16.7
100,000	22,351	-145	-87	-196	-1,292	-387	-1,155	0	0	0	-3,262	-14.6
125,000	29,963	-145	-87	-196	-1,292	-750	-1,155	0	0	0	-3,624	-12.1

[1] Negative values indicate a reduction in net personal income tax paid to the federal government or an increase in federal refundable credits (i.e. the Canada Child Tax Benefit and the goods and services tax credit).

[2] Where individuals and families receive more in federal refundable credits than they pay in federal personal income tax, they pay no net federal personal income tax. A dash indicates that percentage tax relief cannot be calculated.

Table A2.2

Typical Two-Earner Family of Four: Impact in 2001 of the Statement and the 2000 Budget

Total income	Federal tax pre-2000 budget	Reduce 17% rate to 16%	Increase personal amounts to $7,412 and $6,294	Increase brackets to $30,754 and $61,509	Reduce 26% rate to 22%	Eliminate surtax	Reduce 29% rate to 26% for incomes up to $100,000	Enhance Canada Child Tax Benefit	Other indexation	Provide heating expense relief	Total relief[1]	Total relief as a % of federal tax[2]
$	$	$	$	$	$	$	$	$	$	$	$	%
15,000	-4,358	0	0	0	0	0	0	-794	-40	-250	-1,084	–
20,000	-4,299	-3	-56	0	0	0	0	-794	-40	-250	-1,143	–
25,000	-3,663	-41	-87	0	0	0	0	-794	-40	-250	-1,211	–
30,000	-2,382	-86	-87	0	0	0	0	-907	-40	-250	-1,370	–
35,000	-595	-126	-45	0	0	0	0	-767	-124	-250	-1,313	–
40,000	783	-168	-90	0	0	0	0	-315	-124	-250	-947	–
50,000	3,131	-257	-90	-41	0	0	0	-315	0	0	-702	-22.4
60,000	5,753	-290	-90	-116	-210	0	0	-315	0	0	-1,021	-17.7
75,000	9,750	-343	-90	-116	-570	0	0	-315	0	0	-1,434	-14.7
100,000	15,708	-398	-90	-257	-1,280	0	0	0	0	0	-2,025	-12.9
125,000	22,816	-408	-92	-312	-1,802	-75	-405	0	0	0	-3,093	-13.6

[1] Negative values indicate a reduction in net personal income tax paid to the federal government or an increase in federal refundable credits (i.e. the Canada Child Tax Benefit and the goods and services tax credit).

[2] Where individuals and families receive more in federal refundable credits than they pay in federal personal income tax, they pay no net federal personal income tax. A dash indicates that percentage tax relief cannot be calculated.

Table A2.3

Typical Single Individual: Impact in 2001 of the Statement and the 2000 Budget

Total income	Federal tax pre 2000 budget	Reduce 17% rate to 16%	Increase personal amounts to $7,412 and $6,294	Increase brackets to $30,754 and $61,509	Reduce 26% rate to 22%	Eliminate surtax	Reduce 29% rate to 26% for incomes up to $100,000	Enhance Canada Child Tax Benefit	Other indexation	Provide heating expense relief	Total relief[1]	Total relief as a % of federal tax[2]
$	$	$	$	$	$	$	$	$	$	$	$	%
10,000	129	-23	-45	0	0	0	0	0	-5	-125	-198	–
15,000	886	-70	-45	0	0	0	0	0	-20	-125	-260	-29.3
20,000	1,677	-117	-45	0	0	0	0	0	-20	-125	-306	-18.3
25,000	2,468	-163	-45	0	0	0	0	0	-20	-125	-353	-14.3
30,000	3,500	-205	-45	-41	0	0	0	0	-105	-125	-521	-14.9
35,000	4,841	-202	-45	-116	-170	0	0	0	0	0	-533	-11.0
40,000	6,087	-199	-45	-116	-370	0	0	0	0	0	-730	-12.0
50,000	8,687	-199	-45	-116	-770	0	0	0	0	0	-1,130	-13.0
60,000	11,311	-199	-45	-141	-1,170	0	0	0	0	0	-1,555	-13.7
75,000	15,819	-209	-47	-196	-1,292	-75	-405	0	0	0	-2,223	-14.1
100,000	23,432	-209	-47	-196	-1,292	-438	-1,155	0	0	0	-3,335	-14.2
125,000	31,044	-209	-47	-196	-1,292	-800	-1,155	0	0	0	-3,698	-11.9

[1] Negative values indicate a reduction in net personal income tax paid to the federal government or an increase in federal refundable credits (i.e. the goods and services tax credit).

[2] Where individuals and families receive more in federal refundable credits than they pay in federal personal income tax, they pay no net federal personal income tax. A dash indicates that percentage tax relief cannot be calculated.

Table A2.4

Typical Single Parent With One Child: Impact in 2001 of the Statement and the 2000 Budget

Total income	Federal tax pre-2000 budget	Reduce 17% rate to 16%	Increase personal amounts to $7,412 and $6,294	Increase brackets to $30,754 and $61,509	Reduce 26% rate to 22%	Eliminate surtax	Reduce 29% rate to 26% for incomes up to $100,000	Enhance Canada Child Tax Benefit	Other indexation	Provide heating expense relief	Total relief[1]	Total relief as a % of federal tax[2]
$	$	$	$	$	$	$	$	$	$	$	$	%
10,000	-2,691	0	0	0	0	0	0	-405	-33	-250	-688	–
15,000	-2,691	0	0	0	0	0	0	-405	-33	-250	-688	–
20,000	-2,104	-22	-83	0	0	0	0	-397	-33	-250	-785	–
25,000	-1,407	-62	-83	0	0	0	0	-406	-33	-250	-834	–
30,000	-61	-109	-83	0	0	0	0	-436	-37	-250	-915	–
35,000	1,537	-141	-83	-116	-10	0	0	-255	-118	-250	-973	-63.3
40,000	3,157	-138	-83	-116	-210	0	0	-157	-117	-250	-1,072	-33.9
50,000	6,007	-138	-83	-116	-610	0	0	-157	0	0	-1,105	-18.4
60,000	8,857	-138	-83	-116	-1,010	0	0	-157	0	0	-1,505	-17.0
75,000	13,520	-145	-87	-196	-1,258	0	-285	-142	0	0	-2,113	-15.6
100,000	21,133	-145	-87	-196	-1,292	-329	-1,035	0	0	0	-3,084	-14.6
125,000	28,745	-145	-87	-196	-1,292	-692	-1,155	0	0	0	-3,566	-12.4

1 Negative values indicate a reduction in net personal income tax paid to the federal government or an increase in federal refundable credits (i.e. the Canada Child Tax Benefit and the goods and services tax credit).

2 Where individuals and families receive more in federal refundable credits than they pay in federal personal income tax, they pay no net federal personal income tax. A dash indicates that percentage tax relief cannot be calculated.

Table A2.5

Typical One-Earner Family of Four: Impact in 2001 of the Statement

Total income	2001 federal tax pre-Statement	Reduce 17% rate to 16%	Reduce 24% rate to 22%	Eliminate surtax	Reduce 29% rate to 26% for incomes up to $100,000	Enhance Canada Child Tax Benefit	Provide heating expense relief	Total relief[1]	Total relief as a % of federal tax[2]
$	$	$	$	$	$	$	$	$	%
15,000	-5,140	-4	0	0	0	-200	-250	-454	–
20,000	-4,349	-51	0	0	0	-200	-250	-501	–
25,000	-2,796	-97	0	0	0	-229	-250	-576	–
30,000	-715	-144	0	0	0	-274	-250	-668	–
35,000	1,012	-148	-85	0	0	-62	-250	-545	-53.9
40,000	2,658	-145	-185	0	0	-62	0	-392	-14.7
50,000	5,587	-145	-385	0	0	-62	0	-592	-10.6
60,000	8,487	-145	-585	0	0	-62	0	-792	-9.3
75,000	13,511	-145	-615	0	-405	-62	0	-1,227	-9.1
100,000	21,104	-151	-640	-70	-1,155	0	0	-2,015	-9.5
125,000	28,644	-151	-640	-360	-1,155	0	0	-2,305	-8.0

[1] Negative values indicate a reduction in net personal income tax paid to the federal government or an increase in federal refundable credits (i.e. the Canada Child Tax Benefit and the goods and services tax credit).

[2] Where individuals and families receive more in federal refundable credits than they pay in federal personal income tax, they pay no net federal personal income tax. A dash indicates that percentage tax relief cannot be calculated.

Table A2.6

Typical Two-Earner Family of Four: Impact in 2001 of the Statement

Total income	2001 federal tax pre-Statement	Reduce 17% rate to 16%	Reduce 24% rate to 22%	Eliminate surtax	Reduce 29% rate to 26% for incomes up to $100,000	Enhance Canada Child Tax Benefit	Provide heating expense relief	Total relief[1]	Total relief as a % of federal tax[2]
$	$	$	$	$	$	$	$	$	%
15,000	-4,992	0	0	0	0	-200	-250	-450	–
20,000	-4,992	0	0	0	0	-200	-250	-450	–
25,000	-4,389	-35	0	0	0	-200	-250	-485	–
30,000	-3,206	-81	0	0	0	-216	-250	-547	–
35,000	-1,274	-123	0	0	0	-260	-250	-633	–
40,000	311	-162	0	0	0	-62	-250	-475	–
50,000	2,747	-255	0	0	0	-62	0	-318	-11.6
60,000	5,196	-296	-105	0	0	-62	0	-463	-8.9
75,000	9,012	-349	-285	0	0	-62	0	-697	-7.7
100,000	14,738	-415	-640	0	0	0	0	-1,055	-7.2
125,000	21,413	-415	-870	0	-405	0	0	-1,690	-7.9

[1] Negative values indicate a reduction in net personal income tax paid to the federal government or an increase in federal refundable credits (i.e. the Canada Child Tax Benefit and the goods and services tax credit).

[2] Where individuals and families receive more in federal refundable credits than they pay in federal personal income tax, they pay no net federal personal income tax. A dash indicates that percentage tax relief cannot be calculated.

Table A2.7

Typical Single Individual: Impact in 2001 of the Statement

Total income	2001 federal tax pre-Statement	Reduce 17% rate to 16%	Reduce 24% rate to 22%	Eliminate surtax	Reduce 29% rate to 26% for incomes up to $100,000	Enhance Canada Child Tax Benefit	Provide heating expense relief	Total relief[1]	Total relief as a % of federal tax[2]
$	$	$	$	$	$	$	$	$	%
10,000	77	-21	0	0	0	0	-125	-146	–
15,000	818	-67	0	0	0	0	-125	-192	-23.5
20,000	1,609	-114	0	0	0	0	-125	-239	-14.8
25,000	2,400	-160	0	0	0	0	-125	-285	-11.9
30,000	3,310	-207	0	0	0	0	-125	-332	-10.0
35,000	4,603	-211	-85	0	0	0	0	-296	-6.4
40,000	5,749	-208	-185	0	0	0	0	-393	-6.8
50,000	8,149	-208	-385	0	0	0	0	-593	-7.3
60,000	10,549	-208	-585	0	0	0	0	-793	-7.5
75,000	14,824	-208	-615	0	-405	0	0	-1,227	-8.3
100,000	22,217	-216	-640	-110	-1,155	0	0	-2,120	-9.5
125,000	29,757	-216	-640	-400	-1,155	0	0	-2,410	-8.1

[1] Negative values indicate a reduction in net personal income tax paid to the federal government or an increase in federal refundable credits (i.e. the goods and services tax credit).

[2] Where individuals and families receive more in federal refundable credits than they pay in federal personal income tax, they pay no net federal personal income tax. A dash indicates that percentage tax relief cannot be calculated.

Table A2.8

Typical Single Parent With One Child: Impact in 2001 of the Statement

Total income	2001 federal tax pre-Statement	Reduce 17% rate to 16%	Reduce 24% rate to 22%	Eliminate surtax	Reduce 29% rate to 26% for incomes up to $100,000	Enhance Canada Child Tax Benefit	Provide heating expense relief	Total relief[1]	Total relief as a % of federal tax[2]
$	$	$	$	$	$	$	$	$	%
10,000	-3,029	0	0	0	0	-100	-250	-350	–
15,000	-3,029	0	0	0	0	-100	-250	-350	–
20,000	-2,523	-17	0	0	0	-100	-250	-367	–
25,000	-1,834	-57	0	0	0	-100	-250	-407	–
30,000	-497	-104	0	0	0	-125	-250	-479	–
35,000	1,096	-148	-5	0	0	-129	-250	-531	-48.5
40,000	2,617	-145	-105	0	0	-31	-250	-531	-20.3
50,000	5,383	-145	-305	0	0	-31	0	-481	-8.9
60,000	8,033	-145	-505	0	0	-31	0	-681	-8.5
75,000	12,483	-145	-615	0	-285	-31	0	-1,076	-8.6
100,000	19,898	-151	-640	-23	-1,035	0	0	-1,848	-9.3
125,000	27,438	-151	-640	-313	-1,155	0	0	-2,258	-8.2

1 Negative values indicate a reduction in net personal income tax paid to the federal government or an increase in federal refundable credits (i.e. the Canada Child Tax Benefit and the goods and services tax credit).

2 Where individuals and families receive more in federal refundable credits than they pay in federal personal income tax, they pay no net federal personal income tax. A dash indicates that percentage tax relief cannot be calculated.

Table A2.9

Typical One-Earner Family of Four: Impact in 2004 of the Statement and All Budgets Since Deficit Elimination

1997-1999 budget impacts				The Statement and the 2000 budget tax reduction measures in 2004									
Total income	Federal tax pre-1997 budget	Total relief[1]	Total relief as a % of federal tax[2]	Reduce 17% rate to 16%	Increase personal amounts to $8,000 and $6,800	Increase brackets to $35,000 and $70,000	Reduce 26% rate to 22%	Eliminate surtax	Reduce 29% rate to 26% for incomes up to $113,804	Enhance Canada Child Tax Benefit	Other indexation	Total relief[1]	Total relief as a % of federal tax[3]
$	$	$	%	$	$	$	$	$	$	$	$	$	%
15,000	-2,959	-1,451	–	-9	-151	0	0	0	0	-1,099	-80	-1,340	–
20,000	-2,145	-1,475	–	-56	-258	0	0	0	0	-1,099	-80	-1,494	–
25,000	-922	-1,102	–	-102	-258	0	0	0	0	-1,512	-80	-1,953	–
30,000	431	-497	–	-145	-258	-41	0	0	0	-1,407	-251	-2,102	–
35,000	2,209	-534	-24.2	-141	-258	-541	0	0	0	-626	-251	-1,818	–
40,000	3,896	-572	-14.7	-138	-258	-541	-200	0	0	-676	-155	-1,969	-59.2
50,000	7,074	-650	-9.2	-138	-258	-541	-600	0	0	-776	0	-2,314	-36.0
60,000	10,278	-728	-7.1	-138	-258	-566	-1,000	0	0	-876	0	-2,838	-29.7
75,000	15,425	-687	-4.5	-145	-271	-909	-1,443	0	-150	-1,009	0	-3,927	-26.6
100,000	23,255	-904	-3.9	-145	-271	-909	-1,470	-336	-900	-9	0	-4,040	-18.1
125,000	31,085	-1,122	-3.6	-145	-271	-909	-1,470	-698	-1,314	0	0	-4,808	-16.0

1 Negative values indicate a reduction in net personal income tax paid to the federal government or an increase in federal refundable credits (i.e. the Canada Child Tax Benefit and the goods and services tax credit).

2 Where individuals and families receive more in federal refundable credits than they pay in federal personal income tax, they pay no net federal personal income tax. A dash indicates that percentage tax relief cannot be calculated.

3 Percentages are based on federal tax after the 1997, 1998 and 1999 budgets.

Table A2.10

Typical Two-Earner Family of Four: Impact in 2004 of the Statement and All Budgets Since Deficit Elimination

1997-1999 budget impacts				The Statement and the 2000 budget tax reduction measures in 2004									
Total income	Federal tax pre-1997 budget	Total relief[1]	Reduce Total relief as a % of federal tax[2]	Reduce 17% rate to 16%	Increase personal amounts to $8,000 and $6,800	Increase brackets to $35,000 and $70,000	Reduce 26% rate to 22%	Eliminate surtax	Reduce 29% rate to 26% for incomes up to $113,804	Enhance Canada Child Tax Benefit	Other indexation	Total relief[1]	Total relief as a % of federal tax[3]
$	$	$	%	$	$	$	$	$	$	$	$	$	%
15,000	-3,148	-1,210	–	0	0	0	0	0	0	-1,078	-80	-1,158	–
20,000	-2,839	-1,460	–	-3	-56	0	0	0	0	-1,078	-80	-1,217	–
25,000	-2,184	-1,479	–	-41	-270	0	0	0	0	-1,078	-80	-1,469	–
30,000	-1,131	-1,251	–	-86	-270	0	0	0	0	-1,503	-80	-1,940	–
35,000	-26	-569	–	-126	-139	0	0	0	0	-1,459	-209	-1,933	–
40,000	1,289	-506	-39.2	-168	-278	0	0	0	0	-839	-251	-1,536	–
50,000	3,685	-554	-15.0	-257	-278	-41	0	0	0	-689	0	-1,266	-40.4
60,000	6,371	-618	-9.7	-290	-278	-541	-40	0	0	-789	0	-1,939	-33.7
75,000	10,376	-626	-6.0	-343	-278	-541	-400	0	0	-939	0	-2,502	-25.7
100,000	16,415	-708	-4.3	-398	-278	-957	-1,000	0	0	-34	0	-2,666	-17.0
125,000	23,738	-922	-3.9	-408	-285	-1,450	-1,810	-28	-150	0	0	-4,130	-18.1

[1] Negative values indicate a reduction in net personal income tax paid to the federal government or an increase in federal refundable credits (i.e. the Canada Child Tax Benefit and the goods and services tax credit).

[2] Where individuals and families receive more in federal refundable credits than they pay in federal personal income tax, they pay no net federal personal income tax. A dash indicates that percentage tax relief cannot be calculated.

[3] Percentages are based on federal tax after the 1997, 1998 and 1999 budgets.

Table A2.11

Typical Single Individual: Impact in 2004 of the Statement and All Budgets Since Deficit Elimination

1997-1999 budget impacts				The Statement and the 2000 budget tax reduction measures in 2004									
Total income	Federal tax pre-1997 budget	Total relief[1]	Total relief as a % of federal tax[2]	Reduce 17% rate to 16%	Increase personal amounts to $8,000 and $6,800	Increase brackets to $35,000 and $70,000	Reduce 26% rate to 22%	Eliminate surtax	Reduce 29% rate to 26% for incomes up to $113,804	Enhance Canada Child Tax Benefit	Other indexation	Total relief[1]	Total relief as a % of federal tax[3]
$	$	$	%	$	$	$	$	$	$	$	$	$	%
10,000	259	-130	-50.2	-23	-139	0	0	0	0	0	-9	-172	–
15,000	1,040	-154	-14.8	-70	-139	0	0	0	0	0	-40	-249	-28.1
20,000	1,855	-178	-9.6	-117	-139	0	0	0	0	0	-40	-296	-17.6
25,000	2,669	-201	-7.5	-163	-139	0	0	0	0	0	-40	-342	-13.9
30,000	3,726	-226	-6.1	-205	-139	-41	0	0	0	0	-211	-596	-17.0
35,000	5,104	-263	-5.2	-202	-139	-541	0	0	0	0	-61	-943	-19.5
40,000	6,387	-301	-4.7	-199	-139	-541	-200	0	0	0	0	-1,079	-17.7
50,000	9,065	-379	-4.2	-199	-139	-541	-600	0	0	0	0	-1,479	-17.0
60,000	11,769	-458	-3.9	-199	-139	-566	-1,000	0	0	0	0	-1,903	-16.8
75,000	16,413	-594	-3.6	-209	-146	-909	-1,470	-28	-150	0	0	-2,912	-18.4
100,000	24,243	-811	-3.3	-209	-146	-909	-1,470	-390	-900	0	0	-4,024	-17.2
125,000	32,073	-1,029	-3.2	-209	-146	-909	-1,470	-753	-1,314	0	0	-4,801	-15.5

1 Negative values indicate a reduction in net personal income tax paid to the federal government or an increase in federal refundable credits (i.e. the goods and services tax credit).

2 When individuals and families receive more in federal refundable credits than they pay in federal personal income tax, they pay no net federal personal income tax. A dash indicates that percentage tax relief cannot be calculated.

3 Percentages are based on federal tax after the 1997, 1998 and 1999 budgets.

Table A2.12

Typical Single Parent With One Child: Impact in 2004 of the Statement and All Budgets Since Deficit Elimination

1997-1999 budget impacts				*The Statement and the 2000 budget tax reduction measures in 2004*									
Total income	Federal tax pre-1997 budget	Total relief[1]	Total relief as a % of federal tax[2]	Reduce 17% rate to 16%	Increase personal amounts to $8,000 and $6,800	Increase brackets to $35,000 and $70,000	Reduce 26% rate to 22%	Eliminate surtax	Reduce 29% rate to 26% for incomes up to $113,804	Enhance Canada Child Tax Benefit	Other indexation	Total relief[1]	Total relief as a % of federal tax[3]
$	$	$	%	$	$	$	$	$	$	$	$	$	%
10,000	-2,168	-523	–	0	0	0	0	0	0	-567	-66	-633	–
15,000	-2,023	-668	–	0	0	0	0	0	0	-567	-66	-633	–
20,000	-1,402	-703	–	-22	-258	0	0	0	0	-545	-66	-892	–
25,000	-684	-722	–	-62	-258	0	0	0	0	-554	-66	-941	–
30,000	628	-689	–	-109	-258	0	0	0	0	-780	-70	-1,217	–
35,000	1,949	-411	-21.1	-141	-258	-141	0	0	0	-650	-237	-1,428	-92.9
40,000	3,606	-449	-12.4	-138	-258	-541	-40	0	0	-307	-236	-1,521	-48.2
50,000	6,534	-527	-8.1	-138	-258	-541	-440	0	0	-357	0	-1,735	-28.9
60,000	9,462	-605	-6.4	-138	-258	-541	-840	0	0	-407	0	-2,185	-24.7
75,000	14,172	-652	-4.6	-145	-271	-894	-1,400	0	-30	-467	0	-3,208	-23.7
100,000	22,002	-870	-4.0	-145	-271	-909	-1,470	-278	-780	0	0	-3,853	-18.2
125,000	29,832	-1,087	-3.6	-145	-271	-909	-1,470	-640	-1,314	0	0	-4,750	-16.5

1 Negative values indicate a reduction in net personal income tax paid to the federal government or an increase in federal refundable credits (i.e. the Canada Child Tax Benefit and the goods and services tax credit).

2 Where individuals and families receive more in federal refundable credits than they pay in federal personal income tax, they pay no net federal personal income tax. A dash indicates that percentage tax relief cannot be calculated.

3 Percentages are based on federal tax after the 1997, 1998 and 1999 budgets.

Canada Child Tax Benefit

The Canada Child Tax Benefit (CCTB) provides federal assistance through two components: the CCTB base benefit for low- and middle-income families and the National Child Benefit (NCB) supplement, which provides additional assistance for low-income families.

As part of the CCTB enrichments in the 2000 budget, the NCB supplement was scheduled to increase in July 2001 by $200 per child, including indexation. This Statement proposes to increase the NCB supplement by an additional $100 per child in July 2001. Together, the increases in the 2000 budget and this Statement will bring the maximum CCTB benefit in July 2001 to $2,372 for the first child, with corresponding increases for additional children.

Table A2.13
Changes to the Components of the Canada Child Tax Benefit

	Maximum benefit			
	As of July 1996	As of July 2001[2] per Budget 2000	As of July 2001[2] per Statement	As of July 2004[5]
	(dollars, unless otherwise indicated)			
Base benefit				
Basic amount	1,020	1,117	1,117	1,187
Additional benefit for third child	75	78	78	83
Additional benefit for children under 7 years	213	221	221	235
Phase-out rates	2.5% / 5%	2.5% / 5%	2.5% / 5%	2% / 4%
NCB supplement				
First child	500[1]	1,155[3]	1,255[4]	1,333
Second child		955[3]	1,055[4]	1,121
Third child		880[3]	980[4]	1,041
Total benefit				
First child	1,520	2,272	2,372	2,520
Second child	1,020	2,072	2,172	2,308
Third child	1,095	2,075	2,175	2,311

1 In 1996, there was no NCB supplement but there was a Working Income Supplement (WIS) of up to $500 available to low-income families. Prior to 1997, the WIS was provided on a family basis and not on a per-child basis.

2 For 2001, an indexation factor of 2.5 per cent is assumed. Indexation is calculated based on the benefits excluding the extra amount to compensate for the value of indexation for January to June 2000.

3 Increase of $200 per child, including indexation, from the scheduled July 2000 levels in the 1999 budget.

4 Increase of $100 per child, including indexation, from the scheduled July 2001 levels in the 2000 budget.

5 An average annual indexation factor of 2.1 per cent is assumed over five years.

Furthermore, it is proposed that the net family income threshold at which the NCB supplement is fully phased out, and CCTB base benefits begin to be phased out, be increased to $32,000 in 2001. This amount will be indexed thereafter and increased with the second bracket threshold by 2004 to $35,000. It is also proposed that the reduction rate for the CCTB base benefit be cut from 5 per cent (2.5 per cent for one-child families) to 4 per cent (2 per cent for one-child families) by 2004.

Table A2.14
Changes to the Income Thresholds of the Canada Child Tax Benefit

	As of July 1996[1]	As of July 2001[2] per Budget 2000	As of July 2001[2] per Statement	As of July 2004
		(dollars)		
Base benefit	25,921	30,754	32,000	35,000
NCB supplement				
Start phase-out	20,921	21,744	21,744	23,098[3]
End phase-out	25,921	30,754	32,000	35,000

1 In 1996, there was no NCB supplement but there was a Working Income Supplement of up to $500 per family available to low-income families.

2 For 2001, an indexation factor of 2.5 per cent is assumed.

3 An average indexation factor rate of 2.1 per cent is assumed.

Capital Gains

In the 2000 budget, the Government reduced the inclusion rate for capital gains from three-quarters to two-thirds, effective February 28, 2000. The Government is now proposing to go further and to reduce the inclusion rate for capital gains to one-half, effective October 18, 2000.

While the calculations for 2000 involve three periods to reflect the different inclusion rates for each period, the calculations are mechanical.

Capital Gains Tax Rates in Canada and the U.S.

The changes announced today will reduce the maximum federal tax rate on capital gains for individuals in Canada to 14.5 per cent. This is well below the general U.S. federal tax rate of 20 per cent on gains on assets held for more than one year. The top federal-provincial tax rate on capital gains for individuals in Canada will be reduced from an average of about 31 per cent to about 23 per cent, lower than the typical combined federal-state top tax rate on capital gains in the U.S. of 25 per cent. Moreover, the rates for Canada apply to all capital gains, regardless of the type of asset or the length of time the asset is held, contrary to what is the case in the U.S. (Table A2.15).

Table A2.15
Top Marginal Tax Rates on Capital Gains for Individuals in Canada and the U.S. (as of January 1, 2001)

	Capital gains tax rate Federal only		Capital gains tax rate Federal plus provincial/state[1]	
	Canada	U.S.	Canada	U.S.
		(per cent)		
Assets held 1 year or less	14.5	39.6[2]	23.2	44.6[2]
Assets held for more than 1 year	14.5	20.0	23.2	25.0
Assets held for more than 5 years	14.5	18.0[3]	23.2	23.0[3]
Small business shares	0 / 14.5[4]	14.0[5]	0 / 23.2[4]	19.0[5]

[1] Typical provincial/state rates. Under a 50% inclusion rate, provincial tax rates on capital gains would range from 5.3% to 12.5%. State tax rates range from 0 to 12.0%.

[2] Gains on property held for one year or less are taxed as ordinary income.

[3] Applies to assets acquired after December 31, 2000 – will only be available for assets disposed of after 2005.

[4] Eligible for $500,000 lifetime capital gains exemption and potentially the small business rollover.

[5] Available on a maximum of the greater of $10 million or 10 times the cost base of the shares. Shares must be held for more than five years. Small business shares are also potentially eligible for a rollover.

Applying the Different Inclusion Rates for 2000

Computing Taxable Capital Gains/Allowable Capital Losses in Taxation Year 2000 – For Individuals (and Other Taxpayers With Calendar Taxation Years)

Three different capital gains inclusion rates will apply for 2000.

- For the period January 1 – February 27, the inclusion rate will be three-quarters.
- For the period February 28 – October 17, the inclusion rate will be two-thirds.
- For the period October 18 – December 31, the inclusion rate will be one-half.

Accordingly, individuals (and other taxpayers with calendar taxation years) will be required to report separately capital gains and losses realized in each of the three periods.

The approach for determining an individual's taxable capital gain or allowable capital loss and an individual's capital gains inclusion rate for the 2000 taxation year will be based upon the general approach described in the budget documents tabled February 28, 2000. The addition of a third inclusion rate for the year means that an individual's taxable capital gain or allowable capital loss and an individual's inclusion rate will, where the individual has gains or losses in each of the three periods, be calculated in three steps.

If there are no gains or losses in at least one period, the individual's taxable capital gain or allowable capital loss and the inclusion rate for the year can be determined using the same approach set out in the budget documents tabled February 28, 2000. The individual will only need to make the appropriate adjustments to reflect, where necessary, the one-half inclusion rate that applies for the period October 18-December 31.

This situation is illustrated in Example 1.

Example 1

Eric sells shares in ABC Corporation on January 30, 2000, for a gain of $400. He sells more ABC shares on November 30, 2000, for a gain of $1,500. Finally, he sells shares in XYZ Inc. on December 1, 2000, for a loss of $300.

Because he has no gains or losses in the period February 28-October 17, Eric calculates his taxable capital gain using the approach outlined in the budget documents tabled February 28, 2000.

Step 1, based on the February 2000 budget documents

Eric determines separately his net gains for the periods January 1-February 27 and October 18-December 31. For the first period, his net gain is $400; for the last period, his net gain is $1,500 less $300, or $1,200.

Eric uses the formula outlined in the 2000 budget documents, making sure that he adjusts the formula to account for the one-half inclusion rate for the period October 18-December 31.

Taxable Capital Gain = ¾ x $400 + ½ x $1,200 = $900.

Step 2, based on the February 2000 budget documents

To determine his inclusion rate for the year, Eric follows the approach outlined in the budget documents tabled February 28, 2000, and divides his taxable capital gain of $900 by his net gain for the year of $1,600 (i.e., $400 plus $1,200):

Inclusion Rate = $900 ÷ $1,600 = 56.25 per cent.

Gains or Losses in Each of the Three Periods

Step 1 – Calculation of Net Gain/Loss for Each Period

For each of the three periods, the individual will have to compute the net capital gain or loss.

Step 2 – Calculation of Interim Gain/Loss and Interim Inclusion Rate for the Period January 1-October 17

The next step requires the individual to compare the net gain or net loss for the period January 1-February 27 with the net gain or net loss for the period February 28-October 17. This will produce an "interim" net gain or net loss and "interim" capital gains inclusion rate for the period January 1-October 17.

Where there is a net gain in one of the two periods and a net loss in the other, the interim net gain or net loss for the period January 1-October 17 will be computed by netting the two. The interim inclusion rate for the period January 1-October 17 will be the inclusion rate for the period to which the larger of the net gain or net loss relates. This is illustrated in Examples 2 and 3.

Where there are net gains in both periods, or net losses in both periods, the individual's interim net gain or net loss for the period January 1-October 17 will be the sum of the net gains or the net losses. The individual's interim inclusion rate for the period January 1-October 17 will be determined using the following formula:

$$(\tfrac{3}{4} \times A + \tfrac{2}{3} \times B) / (A + B)$$

where

A = Net gain/loss in the period January 1-February 27, 2000; and

B = Net gain/loss in the period February 28-October 17, 2000.

The use of this formula is demonstrated in Example 4.

Step 3: Calculation of Taxable Capital Gain/Allowable Capital Loss and Inclusion Rate for the 2000 Taxation Year

The third step involves using the interim results from Step 2 and the individual's net gain or net loss for the period October 18-December 31 to determine the individual's inclusion rate for the 2000 taxation year. This inclusion rate will then be used to determine the individual's taxable capital gain or allowable capital loss for the year.

Where there is an interim net gain for the period January 1-October 17 and a net loss for the period October 18-December 31, or an interim net loss for the period January 1-October 17 and a net gain for the period October 18-December 31, the net gain or net loss for the 2000 taxation year will be computed by netting the two. The inclusion rate for the year will be the inclusion rate for the period (either the interim period January 1-October 17 or the period October 18-December 31) to which the larger of the net gain or net loss relates. The individual's taxable capital gain or allowable capital loss for the year will be determined by applying this inclusion rate to the net gain or net loss for the year. This is illustrated in Examples 2 and 4.

Where there is an interim net gain from Step 2 and a net gain in the period October 18-December 31, or an interim net loss from Step 2 and a net loss in the period October 18-December 31, the individual's inclusion rate for the 2000 taxation year will be determined using the following formula:

$$(C \times D + \tfrac{1}{2} \times E) / (D + E)$$

where

C = Interim inclusion rate for the period January 1-October 17, 2000;

D = Interim net gain/loss for the period January 1-October 17, 2000; and

E = Net gain/loss in the period October 18-December 31, 2000.

The individual's taxable capital gain or allowable capital loss for the year will be determined by applying this inclusion rate to the individual's net gain or net loss for the year. Example 3 illustrates the use of this formula.

Example 2

Isadora sells shares in XYZ Inc. on February 1, 2000, for a loss of $400. She sells shares in ABC Corporation on May 15, 2000, for a gain of $1,200. Finally, she sells more shares of XYZ Inc. on December 1, 2000, for a loss of $500.

Step 1

Isadora determines separately her net gains and losses for the periods January 1-February 27, February 28-October 17, and October 18-December 31. For the first period, she has a net loss of $400; for the second period, she has a net gain of $1,200; for the third period, she has a net loss of $500.

Step 2

Isadora determines her interim net gain and interim inclusion rate for the period January 1-October 17. Her interim net gain is $800 (the $1,200 net gain less the $400 net loss). Because the net gain from the second period is larger than the net loss from the first period, Isadora's interim inclusion rate is two-thirds.

Step 3

Isadora compares the interim results from Step 2 with the net loss for the period October 18-December 31. Her net gain for the year is $300 (the interim net gain of $800 minus the net loss of $500). Because the net gain for the interim period is greater than the net loss for the later period, her inclusion rate for the year is the two-thirds inclusion rate associated with the interim period. Isadora applies this inclusion rate to her net gain for the year to determine her taxable capital gain.

Taxable Capital Gain = ⅔ x $300 = $200.

Example 3

Doug sells shares in ABC Corporation on February 1, 2000, for a gain of $600. He later sells shares in XYZ Inc. on May 15, 2000, for a loss of $500. Finally, he sells more shares of ABC Corporation on December 1, 2000, for a gain of $400.

Step 1

Doug determines separately his net gains and losses for the periods January 1-February 27, February 28-October 17, and October 18-December 31. For the first period, he has a net gain of $600; for the second period, he has a net loss of $500; for the third period, he has a net gain of $400.

Step 2

Doug calculates his interim net gain and interim inclusion rate for the period January 1-October 17. His interim net gain is $100 (the $600 gain less the $500 loss). Because the net gain from the first period is larger than the net loss from the second period, Doug's interim inclusion rate is three quarters.

Step 3

Doug now uses the interim net gain of $100 and the interim inclusion rate of ¾ for the period January 1-October 17, along with the net gain of $400 for the period October 18-December 31 to determine his inclusion rate for the year. Doug uses the Step 3 formula.

C = ¾, D = $100, E = $400.

Inclusion Rate = (¾ x $100 + ½ x $400) / ($100 + $400) = 55 per cent.

To determine his taxable capital gain for the year, Doug applies this inclusion rate to his net gain for the year of $500 (i.e., the $100 interim net gain plus the $400 net gain for the period October 18-December 31).

Taxable Capital Gain = 55% x $500 = $275.

Example 4

Cecil sells shares in ABC Corporation on February 1, 2000, for a gain of $1,000. On September 10, he sells more shares of ABC Corporation for a gain of $1,500. Finally, he sells shares of XYZ Inc. on December 1, 2000, for a loss of $1,100.

Step 1

Cecil determines separately his net gains and losses for the periods January 1-February 27, February 28-October 17, and October 18-December 31. For the first period, he has a net gain of $1,000; for the second period, he has a net gain of $1,500; for the third period, he has a net loss of $1,100.

Step 2

Cecil calculates his interim net gain and interim inclusion rate for the period January 1-October 17. His interim net gain is $2,500 ($1,000 plus $1,500). His interim inclusion rate is calculated using the Step 2 formula:

A = $1,000, B = $1,500.

Interim Inclusion Rate = (¾ x $1,000 + ⅔ x $1,500) / ($1,000 + $1,500) = 70 per cent.

Step 3

Because the interim net gain for the period January 1-October 17 is larger than the net loss for the period October 18-December 31, Cecil's interim inclusion rate of 70 per cent is his inclusion rate for the year. To determine his taxable capital gain for 2000, Cecil applies this inclusion rate to his net gain of $1,400 (the $2,500 interim net gain minus the $1,100 net loss).

Taxable Capital Gain = 70% x $1,400 = $980.

Taxpayers With Non-Calendar Taxation Years

For taxpayers whose taxation years do not coincide with the calendar year (such as some corporations), the one-half inclusion rate will apply to capital gains realized after October 17, 2000. Similar to individuals, corporations will be required to report separately capital gains and losses realized before February 28, from February 28 to October 17, and after October 17, 2000.

Loss Carryovers

The treatment of net capital losses carried over from other years will be the same as described in the budget documents tabled February 28, 2000.

Eligible Capital Property

Eligible capital property refers to items such as goodwill and other intangibles. The treatment of eligible capital property is somewhat analogous to the treatment of depreciable property in that deductions are subject to recapture and, where proceeds of disposition exceed the original cost, the gains are treated similarly to capital gains. Accordingly, the one-half inclusion rate for capital gains will apply to gains on dispositions of eligible capital property for taxation years that end after October 17, 2000.

The existing pooling system, whereby three-quarters of the cost of such property is depreciated at 7 per cent declining balance, will be maintained. This approach is the most generous for taxpayers and will ease both compliance and administration.

Mutual Funds and Segregated Funds

As an alternative to specific identification, mutual fund corporations, mutual fund trusts and segregated fund trusts will be permitted to treat their capital gains and capital losses for the year as being earned on an equal daily basis throughout the year for the purposes of determining net capital gains or losses attributable to a particular period in the year. If this option is used by a fund, capital gains allocated to the unitholders must be apportioned to the periods in the year on a consistent basis (other than gains allocated by a segregated fund on a redemption of an interest in the segregated fund in the year).

Capital Gains Arising From Certain Charitable Donations

The capital gains inclusion rate is reduced by one-half for capital gains arising from certain donations of appreciated publicly traded securities and ecologically sensitive property to a charity. For 2000, the inclusion rate for such capital gains will be based on one-half of the capital gains inclusion rate for the period in which the donation occurred. For 2001 (and future years, where applicable), the inclusion rate will be one-half of the capital gains inclusion rate for that year.

Capital Gains Rollovers for Small Business Investors

To improve access to capital for small businesses with high growth potential, the 2000 budget introduced a measure that permits individuals to defer limited amounts of capital gains on eligible small business investments to the extent that the proceeds are reinvested in another eligible small business investment.

Currently, the rollover is available on the first $500,000 invested in an eligible small business, which can have no more than $2.5 million in assets immediately before the investment is made and $10 million immediately after the investment. The investment must be in newly issued treasury shares.

Effective immediately, the capital gains rollover measure for small business will be expanded as follows:

- the amount of the original investment on which the deferral will be available will be increased to $2 million from $500,000;
- the amount that can be reinvested in shares of an eligible small business that will qualify for the deferral will be increased to $2 million from $500,000;

- the size of businesses eligible for the rollover will be increased from $10 million to include corporations with no more than $50 million in assets immediately after the investment (the $2.5 million restriction will be eliminated); and

- the eligible business will be required to be primarily carried on in Canada for 24 months while the investor holds the shares.

These changes will expand the small business rollover measure to encompass later-stage financings and help facilitate the growth of small, new-economy companies.

Given that this measure is intended to improve access to capital for small businesses with high growth potential, especially in the fast-growing high-tech industries, specified financial institutions, professional corporations and corporations with significant real estate holdings will not qualify as eligible small businesses.

Creating an Advantage for Canadian Business

Table A2.16 compares corporate income and capital tax rates in Canada and the U.S. The combined effect of federal and provincial tax changes will be to reduce the average Canadian corporate income tax rate 7.2 percentage points below that of the U.S. Even taking into account capital taxes, the overall Canadian business tax rate will be 4.6 percentage points lower.

Start-up high-technology companies in Canada can already benefit from several tax provisions that are more advantageous than, or have no equivalent in, other countries (e.g. the U.S.), including the $500,000 lifetime capital gains exemption, low tax rates on small business income, and generous tax credits for research and development.

The reduction in the capital gains inclusion rate to one half and the expansion of the rollover measure will add to these advantages and significantly improve access to capital for start-up companies. Many Canadian businesses will therefore have greater opportunities to raise financing.

The lower inclusion rate for capital gains will allow entrepreneurs and angel investors to retain more of their gains on their small business investments. Expanding the rollover measure will make it easier for these individuals to move their capital to new and fast-growing business opportunities. The increase in after-tax returns on investment will make it more attractive for these individuals to make such investments in Canada relative to the U.S.

Table A2.16
Current and Proposed Corporate Tax Rate Comparisons – Canada vs. the United States

	2000	2005
	(per cent)	
Canada		
Federal income tax rate[1]	29.12	22.12[2]
Provincial average income tax rate[3]	13.9	9.7
Alberta	15.5	8.0
Ontario	14.5	8.0
Quebec	8.9	8.9
Newfoundland, Northwest Territories, Nunavut	14.0	14.0
Yukon	15.0	15.0
Nova Scotia, Prince Edward Island	16.0	16.0
British Columbia	16.5	16.5
Manitoba, New Brunswick, Saskatchewan	17.0	17.0
Federal-provincial income tax rate	43.0	31.8
Federal-provincial business tax rate (including capital taxes[4])	46.6	35.4
United States		
Federal income tax rate	35.0	35.0
Average state income tax rate[5]	4.0	4.0
Federal-state income tax rate	39.0	39.0
Federal-state business tax rate (including capital taxes)	40.0	40.0
Difference between Canada and United States		
Income tax rate	4.0	-7.2
Business tax rate (including capital taxes)	6.6	-4.6

[1] The federal surtax remains at 1.12% (i.e. 4% of the 28% rate).

[2] The federal tax rate will drop to this level in 2004.

[3] Provincial income tax rate is a weighted average.

[4] The income tax rate equivalent of capital taxes has been included.

[5] The state income tax rate is the effective rate after taking into account the deductibility of state taxes for federal tax purposes.

The personal income tax reductions and the more favourable treatment of stock options announced in the 2000 budget and this Statement will also help start-up high-technology companies attract and retain highly skilled employees. Employee stock option benefits were already taxed more favourably in Canada than in the U.S., and the tax measures announced today will increase this advantage.

The reduction in the general corporate tax rate will ensure that when these businesses grow, it remains advantageous for them to stay in Canada.

Creating a Canadian Advantage for Investment and Entrepreneurship

Large businesses:	**5 percentage points lower average corporate tax rate in Canada** than in the U.S.
Small businesses:	Similar average corporate tax rate on income up to $75,000 in Canada and the U.S. **Significantly lower corporate rates in Canada** on income above $75,000.
Capital gains:	**2 percentage points lower average top tax rate in Canada** than the typical top capital gains rate in the U.S. The $500,000 lifetime capital gains exemption for small business shares has no equivalent in the U.S.
Employee stock options:	**More generous treatment for employees in Canada** than in the U.S.
R&D companies:	Canada provides a **permanent 20% research and development (R&D) tax credit for all R&D expenditures** compared to the temporary U.S. 20% credit for incremental R&D. A 35% refundable tax credit available to smaller Canadian-controlled private corporations; not available in the U.S.

Foreign Spin-offs

In the last three years, Canadian and U.S. corporations have been undergoing corporate reorganizations on a regular basis to rationalize their business activities. These reorganizations are complex because of, amongst other things, corporate, securities and tax law requirements.

Canada has, as other countries do, its own set of detailed tax rules that allow for the tax-deferred reorganization of a corporation's business structure. A divisive reorganization (spin-off) can occur on a tax-deferred or taxable basis, depending on the facts and on the law of the jurisdiction in which the spin-off occurs and the shareholders reside. The appropriate corporate and tax law that applies to a corporation that is the subject of a reorganization is specific to the particular jurisdiction in which the corporation is incorporated and in which it is undergoing the reorganization. However, shareholders of the corporation may not reside in that jurisdiction and, therefore, the tax law applicable to those shareholders can differ from that applicable in the country in which the corporation is reorganized.

A tax-deferred corporate divisive reorganization in the U.S. is generally not a tax-deferred transaction for shareholders who reside in Canada. Similarly, a tax-deferred divisive reorganization in Canada is generally not a tax-deferred transaction for U.S. shareholders of a reorganizing Canadian corporation. This disparity for Canadian shareholders who participate in a U.S. spin-off has been under review.

It is proposed that the Income Tax Act be amended, effective for distributions received after 1997, to allow a tax deferral, on an elective basis, in respect of certain distributions by foreign corporations of spin-off shares to Canadian resident shareholders. Applying the change for distributions after 1997 takes into account the three-year reassessment period when year 2000 is accounted for. In general terms, to be eligible the distribution to a Canadian resident must be made by a widely held and actively traded U.S. public corporation, of shares only. Further, the U.S. tax law must provide tax-deferred treatment to the distributing corporation and its U.S. resident shareholders.

In the case of spin-off distributions undertaken by corporations resident in other foreign countries, provision will be made to allow similar tax deferrals on a prescriptive basis.

Canadian/Foreign Share-for-Share Exchanges

Under the Income Tax Act, certain share-for-share exchanges can be effected on a tax-deferred basis where the corporations involved are all resident in Canada or are all non-residents. These rules do not apply, however, to a Canadian resident shareholder who exchanges shares of a domestic corporation for shares of a foreign corporation (or vice versa).

It is intended that a share-for-share exchange rollover rule be developed in consultation with the private sector to apply to cross-border share-for-share exchanges where a Canadian resident shareholder receives only share consideration on the exchange. To ensure the preservation of the Canadian income tax base, rules must be developed to provide for, among other things, cost base adjustments, paid-up capital adjustments, the preservation of taxable Canadian property status, and adjustments for tax benefits that could potentially arise because of the conversion of capital gains into dividends (or vice versa). Any such rollover rule would not take effect before the release of draft legislation for public discussion.

Federal Tax Credit for Flow-Through Share Investors

Mineral exploration activity in Canada has been low in recent years and the modest recovery in mineral prices has yet to make any significant impact. Rural communities across Canada that depend on mining have been hard hit. To promote mineral exploration activity, several rural communities along with some provincial governments and industry associations have requested that a temporary additional tax incentive be provided for certain flow-through share investments. This incentive would be focused on those exploration activities most likely to find new deposits in Canada. The recent Federal-Provincial Mines Ministers Conference also encouraged the federal government to increase the existing tax assistance for flow-through share investments. As a result, the federal government proposes to introduce a new temporary investment tax credit for mineral exploration. Provincial governments are encouraged to build on this federal initiative by offering similar provincial tax credits.

This federal tax credit will be available to individuals (other than trusts) at the rate of 15 per cent of specified surface "grass roots" mineral exploration expenses incurred in Canada pursuant to a flow-through share agreement. This new credit will apply to specified expenses incurred by an individual pursuant to a flow-through share agreement made after October 17, 2000, in respect of expenses incurred by the corporation after that day and before 2004. This non-refundable credit will reduce the cumulative Canadian exploration expense pool for years following the year in which it is claimed.

The Government will continue to review the definition of eligible expenses and other technical issues related to flow-through shares. In addition, discussions have already begun with the industry in response to concerns identified by the House of Commons Standing Committee on Industry.

Measures to Enhance Tax Fairness and Achieve Economic and Social Objectives (1994-2000)

General Tax Relief

1998

- Increased the amount of income that low-income Canadians can receive on a tax-free basis by $500.
- Eliminated the 3-per-cent general surtax for taxpayers with incomes up to about $50,000 and reduced the amount for those with incomes between $50,000 and $65,000.

1999

- Extended the $500 increase in the amount of income that can be received on a tax-free basis to all Canadians, and increased it for all Canadians by an additional $175, for a total of $675.
- Eliminated the 3-per-cent general surtax for all remaining taxpayers for whom the surtax was not removed in the 1998 budget.

2000 Budget

- Proposing to implement actions as outlined in the Five-Year Tax Reduction Plan (implementation date for various measures contained in text) including:
  - Restored full indexation of the tax system effective January 1, 2000.
  - Reducing the middle tax rate from 26 per cent to 24 per cent.
  - Eliminating the 5-per-cent deficit reduction surtax for income up to about $85,000 and reducing the rate to 4 per cent.
- Proposing to reduce capital gains inclusion rate to two-thirds.
- Proposing to permit a rollover of capital gains on the disposition of qualified small business investments.
- Proposing to defer the income inclusion from exercising stock options until disposition.
- Proposing to reduce the general corporate income tax rate to 27 per cent from 28 per cent.
- Proposing to reduce the corporate tax rate on income between $200,000 and $300,000 earned by a Canadian-controlled private corporation from an active business to 21 per cent from 28 per cent.

General Tax Relief (cont'd)

2000 Statement

- Proposing to:
  - Lower the 17-per-cent rate to 16 per cent.
  - Lower the 24-per-cent rate to 22 per cent.
  - Lower the 29-per-cent rate to 26 per cent on income between $61,509 and $100,000.
  - Apply the top rate of 29 per cent to income over $100,000.
  - Eliminate the deficit reduction surtax.
- Proposing to reduce the capital gains inclusion rate to one-half.
- Proposing to expand the rollover of capital gains on disposition of qualified small business investments, with the amount of the rollover raised from $500,000 to $2 million and the size of business eligible for rollover raised from $10 million to $50 million.
- Proposing to reduce the general corporate income tax rate from 27 per cent to 25 per cent on January 1, 2002, to 23 per cent on January 1, 2003, and to 21 per cent on January 1, 2004.
- Proposing to allow self-employed individuals to deduct the portion of Canada Pension Plan and Québec Pension Plan contributions representing the employer's share, beginning January 2001.
- Proposing to provide one-time relief for heating expenses of $125 for individuals and $250 for families eligible for the goods and services tax credit.

Families and Seniors

1996

- Introduced new tax treatment of child support payments, with payments non-deductible for the payer and non-taxable for the recipient.
- Announced two-step enrichment of the Working Income Supplement (WIS) of the Child Tax Benefit (CTB) of $250 million.
- Replaced the seven-year limit by an unlimited carry-forward of unused registered retirement savings plan (RRSP) room.

1997

- Announced a new Canada Child Tax Benefit (CCTB) by simplifying and enriching the current CTB, starting July 1998, with an $850-million supplement for low-income families.
- Enriched the WIS in July 1997 from the $125 million announced in the 1996 budget to $195 million and restructured from a per-family to a per-child basis.

1998

- Increased the limits to $7,000/$4,000 under the child care expense deduction.
- Enriched the supplement under the CCTB by another $425 million on July 1, 1999 and a further $425 million on July 1, 2000.
- Removed contributions to RRSPs and registered pension plans (RPPs) from the base for the alternative minimum tax.

1999

- Set the design for the $850-million increase in the CCTB supplement amount in the 1998 budget.
- Proposed to enrich the CCTB by $300 million in July 2000 to enhance benefits for modest- and middle-income families.
- Proposed to improve the responsiveness of the goods and services tax (GST) credit.
- Proposed to ensure that the maximum GST credit supplement is provided to low-income single-parent families.
- Proposed to allow greater flexibility to transfer RRSP proceeds to financially dependent children upon the death of the RRSP owner.

2000 Budget

- Proposed to implement a number of changes to the CCTB:
  - CCTB base benefit to increase by $70 per child July 2000 including indexation.
  - National Child Benefit (NCB) supplement to be increased by $200 per child July 2001 including indexation.
- Proposing to raise the foreign property limit to 25 per cent for 2000 and 30 per cent after 2000.

2000 Statement

- Proposing to enrich the NCB supplement by an additional $100 per child in July 2001.
- Proposing to increase the income threshold at which the NCB supplement is fully phased out and the base benefit begins to be phased out to $32,000 in 2001.
- Proposing to legislate a cut in the reduction rate for CCTB base benefits from 5.0 per cent (2.5 per cent for one-child families) to 4.0 per cent (2.0 per cent for one-child families) by 2004.

Education

1996

- Increased the amount used to establish the education credit from $80 to $100 per month.
- Raised the annual limit on the transfer of the tuition fee and education amounts to those who support students from $4,000 to $5,000.
- Increased the annual limit on contributions to registered education savings plans (RESPs) from $1,500 to $2,000, and the lifetime limit from $31,500 to $42,000.
- Broadened eligibility for the child care expense deduction to assist parents who undertake education or retraining.

1997

- Doubled the amount used to establish the education credit over two years to $200 per month.
- Made ancillary fees, such as health services and athletics, eligible for the tuition credit.
- Allowed a carry-forward of unused tuition and education credits.
- Increased annual contribution limits for RESPs from $2,000 to $4,000.
- Allowed transfers of RESP funds to an RRSP or to the contributor.

1998

- Provided a Canada Education Savings Grant of 20 per cent on annual contributions of up to $2,000, along with carry-forward flexibility.
- Introduced a tax credit for interest on student loans.
- Allowed RRSP withdrawals for lifelong learning.
- Enhanced tax support for part-time education through the education credit and the child care expense deduction.

2000 Budget

- Proposing to increase the current partial annual exemption to $3,000 from $500 for scholarship, fellowship or bursary income.

2000 Statement

- Proposing to double the education amount from $200 per month to $400 per month.

Tax Assistance for Charities and Public Institutions

1994

- Lowered the threshold at which charitable donations begin to earn the 29-per-cent tax credit from $250 to $200.

1995

- Removed the income limit for tax credits on donations of ecologically sensitive lands.

1996

- Increased the limits on charitable donations eligible for tax credits from 20 per cent to 50 per cent of net income, and to 100 per cent of net income in the year of death and the preceding year.
- Expanded zero-rating of hospital beds to all health care facilities, including long-term care facilities.
- Allowed most charitable and public organizations to raise funds without collecting and remitting GST on sales.
- Extended GST relief on purchases of vehicle modifications necessary to serve individuals with disabilities.
- Provided a 100-per-cent GST rebate on books purchased by public libraries, educational institutions and other specified bodies.

1997

- Reduced the inclusion rate on capital gains arising from the donation of publicly listed securities from 75 per cent to 37.5 per cent.
- Changed the income limit for donations to 75 per cent.
- Included 25 per cent of capital cost allowance (CCA) recapture in the net income limit.
- Sanctioned a new method of valuation for easements of ecologically sensitive lands.
- Increased resources for Revenue Canada to enhance information and compliance from charities.
- Simplified GST accounting, reporting and remittance requirements for charities.

1998

- Increased tax-free allowances for emergency service volunteers.
- Allowed designated charities to treat certain services they supply to business customers as GST/harmonized sales tax (HST) taxable, thereby allowing charities to compete on an equal footing with other suppliers.
- Provided equivalent GST/HST treatment to charities operating authorized bottle return depots vis-à-vis commercial operators.

2000 Budget

- Proposing to reduce tax on employment benefits in respect of donations of shares acquired through stock option plans to parallel treatment for donations of traded securities.
- Proposing to extend the charitable donations tax credit to donations of RRSP, RRIF and insurance proceeds that are made as a consequence of direct beneficiary designations.
- Proposing to reduce capital gains income inclusion by one-half in respect of gifts of ecologically sensitive land and related easements, covenants and servitudes.

Persons With Disabilities

1996

- Expanded zero-rating of orthopaedic and orthotic devices under the GST.
- Enriched the tax credit for infirm dependants.

1997

- Broadened the medical expense tax credit.
- Removed the limit on the attendant care deduction.
- Introduced a refundable medical expense credit for earners.
- Broadened the definition of preferred beneficiary for trusts benefiting people with disabilities.

1998

- Introduced a new tax credit for caregivers who care for related seniors and persons with disabilities.
- Extended the Home Buyers' Plan to persons with disabilities.
- Included training expenses for caregivers for the medical expense tax credit.
- Allowed certification for the disability tax credit (DTC) by occupational therapists and psychologists.
- Exempted respite care services from the GST/HST.

1999

- Proposed to expand the medical expense credit to provide enhanced tax assistance for persons with disabilities.

2000 Budget

- Proposing to extend eligibility for the DTC to individuals requiring extensive therapy.
- Proposing to expand list of relatives to whom the DTC can be transferred.
- Providing an increase in credit of up to $500 for families caring for children eligible for the DTC.
- Proposing to increase the maximum child care expense deduction available in respect of persons eligible for the DTC to $10,000 from $7,000.
- Proposing to extend tax assistance for expenses relating to the costs of adapting a new home to the needs of a disabled person.
- Proposing to expand the attendant care deduction to include the cost of an attendant required in order to attend school.

2000 Statement

- Proposing to increase the DTC amount from $4,293 to $6,000 in 2001. As a consequence, the income threshold at which the refundable medical expense supplement for earners begins to be phased out is expected to increase from $17,663 to about $19,705, taking into account indexation.
- Proposing to increase the caregiver tax credit amount from $2,386 to $3,500 in 2001.
- Proposing to increase the infirm dependant tax credit amount from $2,386 to $3,500 in 2001.
- Proposing to increase the amount for the supplement to the DTC for children with severe disabilities from $2,941 to $3,500 in 2001.

Personal Income Tax Measures to Better Target Tax Preferences

1994

- Eliminated the $100,000 lifetime capital gains exemption.
- Extended the base for the alternative minimum tax.
- Restricted the use of tax shelters.
- Extended the taxation of employer-paid life insurance premiums to the first $25,000 of coverage.
- Introduced income-testing of the age credit.

1995

- Eliminated tax advantages available through trusts.
- Reduced the overcontribution allowance for RRSPs from $8,000 to $2,000.
- Capped the money purchase RPP and RRSP dollar limits at $13,500 through 2002 and 2003 respectively.
- Eliminated the retiring allowance rollovers for years of service after 1995.
- Eliminated double claims of personal credits in the year of personal bankruptcy.

1996

- Announced new rules on taxpayer migration to ensure that gains that accrue while a taxpayer is a resident of Canada are subject to Canadian tax.
- Capped the maximum pension limit for defined benefit RPPs at $1,722 per year of service until 2005 (only affecting individuals earning over $75,000).
- Reduced the maximum age limit for deferring tax on savings in RRSPs and RPPs from age 71 to 69.
- Further constrained tax shelters relying on a mismatch of income and expenses.

1998

- Allowed deductibility of health and dental premiums for the self-employed.
- Expanded the remote worksite concept.
- Clarified the tax treatment of relocation expenses.
- Strengthened the integrity of the certified cultural property regime.
- Expanded rules regarding employee options to allow the acquisition of units of mutual fund trusts.

1999

- Proposed to prevent income splitting with minors.
- Proposed to address deficiencies in the rules governing the taxation of income earned through investments in foreign-based investment funds and transfers to non-resident trusts.
- Proposed special rules for the treatment of retroactive lump-sum payments.
- Proposed to provide more equitable treatment of income earned by communal organizations.

Personal Income Tax Measures to Better Target Tax Preferences (cont'd)

2000 Budget

- Proposing to reduce the federal surtax on income not earned in a province from 52 per cent of basic federal tax to 48 per cent.
- Proposing the $1,000 deemed adjusted cost base and deemed proceeds of disposition for personal-use property not apply if the property is acquired as part of an arrangement in which the property is donated.

2000 Statement

- Proposing to introduce a temporary federal investment tax credit at a rate of 15 per cent for mineral exploration expenses incurred in Canada pursuant to a flow-through share agreement.

Business Income Tax Measures to Better Target Tax Preferences

1994

- Eliminated, for large private corporations, both the small business deduction and the enhanced scientific research and experimental development (SR&ED) benefits.
- Reduced the deduction for business meals and entertainment expenses from 80 per cent to 50 per cent to better reflect the personal consumption element of these expenditures.
- Increased the rate of tax on corporate dividends received by private investment corporations.
- Implemented measures to ensure that the income of financial institutions is measured appropriately for tax purposes.
- Eliminated the preference for sole-purpose SR&ED performers.
- Reduced regional investment tax credits.
- Modified the basis upon which insurance companies may claim reserves for income tax purposes.
- Ensured corporations cannot avoid paying tax when selling assets through "purchase butterfly" transactions.
- Tightened the rules applicable to foreign affiliates.
- Tightened the rules applicable on forgiveness of debt.

1995

- Increased the large corporations tax (LCT) and corporate surtax.
- Introduced a temporary surcharge on banks and other large deposit-taking institutions.
- Eliminated the deferral of tax on unincorporated business income.
- Eliminated the deferral advantage for investment income earned by private holding companies.
- Replaced the film tax shelter mechanism for certified Canadian films with a tax credit.
- Tightened the rules relating to non-arm's-length contract SR&ED.
- Introduced a voluntary measure for construction industry reporting.
- Tightened the rules concerning superficial losses.

1996

- Extended the capital tax surcharge on large deposit-taking institutions.
- Reduced tax assistance for labour sponsored venture capital corporations (LSVCCs).
- Tightened the resource allowance rules.
- Repealed joint exploration corporation rules.
- Restricted eligibility of various expenses for flow-through share treatment.
- Enhanced incentives to invest in renewable energy.
- Limited SR&ED benefits for non-arm's-length salaries and wages.

Business Income Tax Measures to Better Target Tax Preferences (cont'd)

1997
- Extended the capital tax surcharge on large deposit-taking institutions.
- Replaced tax shelters used to finance non-Canadian films with a tax credit.

1998
- Extended the capital tax surcharge on large deposit-taking institutions.
- Allowed deductibility of countervailing duties and anti-dumping charges.
- Allowed more time for year-end distributions for mutual fund trusts.
- Harmonized financial institution designation for LCT and other purposes.
- Allowed an earthquake reserve deduction.
- Prevented unintended benefits under the SR&ED regime.
- Improved a range of international taxation rules.

1999
- Proposed to extend the capital tax surcharge on large deposit-taking institutions.
- Proposed to ensure that electricity generating activities are taxed equitably.
- Proposed to clarify the tax status of non-resident funds that retain Canadian service providers.
- Proposed to update rules governing LSVCCs to ensure consistency with provincial programs, and address issues relating to corporate restructuring.
- Proposed improved capital cost allowances to encourage the productive use of flare gas.

2000 Budget
- Proposing to modify the thin capitalization rules so that they work more effectively.
- Proposing to repeal the non-resident-owned investment corporation provisions.
- Proposing to treat provincial deductions for SR&ED that exceed the actual amount of the expenditure as government assistance.
- Proposing to treat weak currency borrowing as equivalent to a direct borrowing in the currency that is used by the taxpayer to earn income.
- Proposing to clarify foreign tax credit rules and rules regarding the deductibility of foreign exploration and development expenses.
- Proposing to extend M&P tax credit to corporations that produce, for sale, steam for uses other than the generation of electricity.
- Proposing adjustments to improve the CCA system for certain rail assets; M&P equipment; and certain electrical generating equipment, and heat/water production and distribution equipment.
- A federal-provincial review of the application of the capital tax surcharge on large deposit-taking institutions is underway.

Sales Tax Measures to Better Target Tax Preferences

1996–97

- Tightened the GST rules governing the claiming of input tax credits and rebates by large businesses and exempt entities.
- Reinforced the GST rules relating to trusts, estates and partnerships to ensure fair and consistent treatment of similar businesses that are organized differently.
- Refined the criteria for businesses to be treated for GST purposes as being in competition with financial institutions.
- Permitted warranty companies to recover GST paid on reimbursements to warranty holders.
- Extended the GST accommodation rebate for visitors to Canada to non-resident businesses.
- Expanded zero-rating and rebate provisions for exported goods and services.
- Tightened the GST real property rules to ensure that all builders of multiple-unit residential buildings are treated equitably.

1998

- Enhanced the GST/HST Visitor Rebate Program.
- Enhanced the alternate collection mechanism for direct sellers.

1999

- Proposed GST/HST rebate for Multi-Employer Pension Plans to provide comparable sales tax treatment relative to Single-Employer Pension Plans.

2000 Budget

- Proposing to introduce a new export distribution centre program to relieve GST/HST cash-flow burden.
- Proposing to introduce a GST rebate, equal to 2.5 percentage points of tax, for newly-constructed, substantially renovated or converted residential rental accommodation not eligible for an existing rebate.
- Proposing to reduce the annual exemption from the excise tax on tobacco exports from 2.5 per cent to 1.5 per cent of production.

Simplifying Tax Administration and Improving Enforcement

1994–97

- Strengthened outreach and education programs.
- Enhanced easy-to-understand automatic telephone information systems.
- Met with special taxfiler groups such as senior citizens and immigrants to help them comply.
- Established a single Business Number for streamlining registration for GST remitters, employers, corporations and importers/exporters.
- Introduced a "Business Window" initiative to provide one-stop service for small businesses.
- Simplified payroll reporting for small businesses.
- Reduced compliance costs for small- and medium-sized businesses by co-ordinating GST, income tax and excise tax audits.
- Streamlined procedures to simplify and expedite Customs clearance.
- Implemented a new approach to large business audits including audit protocol.
- Reinforced measures to target the underground economy.
- Proposed earlier identification of abusive tax avoidance and tax shelter schemes.
- Continued to improve sophisticated risk models to identify areas of high risk and a sector approach to compliance for small- and medium-sized businesses.
- Introduced forgiveness of penalties on voluntary tax disclosures to encourage taxpayers to comply voluntarily.
- Included exchange of information provisions to help deal with tax havens.
- Proposed new rules requiring residents of Canada to file an information return when they own foreign assets in excess of $100,000 in value.
- Required adequate documentation of transactions relating to transfer pricing and introduced new penalty provisions related to Revenue Canada reassessments.
- Increased resources for Revenue Canada for transfer pricing audits.

1998

- Introduced mandatory reporting of federal and construction contracts.

1999

- Proposed to allow corporations to offset interest on corporate tax overpayments and underpayments.
- Proposed to provide for civil penalties for misrepresentations of tax matters by third parties.
- Proposed to improve tax administration by sharing limited information with provinces.
- Proposed measures that will reduce tobacco contraband.

Simplifying Tax Administration and Improving Enforcement (cont'd)

2000 Budget

- Proposing that the Minister of National Revenue be given authority to obtain judicial authorization, in certain circumstances, to take immediate action to protect GST revenues.
- Proposing to permit an official of the Canada Customs and Revenue Agency to provide relevant taxpayer information to the police for investigation purposes.
- Proposing to extend penalties under the Act to persons who hinder, molest or interfere with an official who is performing a collection duty.
- Proposing to allow Statistics Canada to provide taxpayer information to provincial statistical agencies solely for use in research and analysis.
- Proposing to allow individuals to offset interest on income tax overpayments and underpayments.

Notice of Ways and Means Motion to Amend the Income Tax Act

That it is expedient to amend the *Income Tax Act* to provide among other things:

Personal Income Tax Reduction

(1) That, for the 2001 and subsequent taxation years, the tax payable by an individual (other than an *inter vivos* trust) under Part I of the Act be determined in accordance with the following rate structure:

(*a*) 16 per cent of taxable income up to $30,004 (indexed after 2000),

(*b*) 22 per cent of taxable income between $30,004 and $60,009 (both amounts indexed after 2000),

(*c*) 26 per cent of taxable income between $60,009 (indexed after 2000) and $100,000 (indexed after 2001), and

(*d*) 29 per cent of taxable income that exceeds $100,000 (indexed after 2001),

and that, as a result, the "appropriate percentage" used in computing the individual's non-refundable personal tax credits and alternative minimum tax reflect the rate referred to in subparagraph (*a*).

Individual Surtax

(2) That, for the 2001 and subsequent taxation years, the individual surtax imposed under section 180.1 of the Act be eliminated.

Canada Child Tax Benefit

(3) That the provisions of the Act relating to the Canada Child Tax Benefit be modified in accordance with proposals described in the documents tabled by the Minister of Finance in the House of Commons on October 18, 2000.

Relief for Heating Expenses

(4) That every individual eligible to receive a goods and services tax credit (GSTC) amount for January 2001 (including individuals who were eligible to receive a GSTC amount in July 2000 in respect of a GSTC amount for January 2001) receive, in addition to that amount, a one-time payment in respect of heating expenses equal to

(*a*) $250 if, for the 1999 taxation year, the individual had

(i) a qualified relation, or

(ii) a qualified dependant in respect of whom the individual was entitled to claim the tax credit equivalent to the spouse or common-law partner tax credit, and

(*b*) $125, in any other case.

Education Tax Credit

(5) That, for the 2001 and subsequent taxation years, the $200 and $60 monthly amounts on which the education tax credit is calculated be increased to $400 and $120, respectively.

Disability Tax Credit

(6) That

(*a*) the amount on which the basic disability tax credit is calculated be increased from $4,293 for 2000 to $6,000 for 2001 (indexed after 2001),

(*b*) in respect of the supplement to the disability tax credit described in subparagraph (15)(*a*) of the Notice of Ways and Means Motion to amend the *Income Tax Act* tabled by the Minister of Finance in the House of Commons on February 28, 2000 (in this Notice referred to as the "2000 Budget Notice"), the amount on which the supplement is calculated be increased from $2,941 for 2000 to $3,500 for 2001 (indexed after 2001), and

(*c*) after October 17, 2000, a person authorized to practice as a speech-language pathologist be allowed to certify the existence of a severe and prolonged speech impairment for the purpose of the disability tax credit.

Caregiver and Infirm Dependant Tax Credits

(7) That the amount on which the caregiver tax credit and the infirm dependant tax credit are calculated be increased from $2,386 for 2000 to $3,500 for 2001 (indexed after 2001).

CPP/QPP Contributions on Self-Employed Earnings

(8) That, with respect to fiscal periods that end after 2000,

(*a*) one-half of any contribution payable by an individual under the *Canada Pension Plan* or the *Quebec Pension Plan* in respect of the individual's self-employed earnings for the period be deductible in computing the individual's income for the taxation year in which the period ends, and

(*b*) the remainder continue to qualify for the tax credit provided under section 118.7 of the Act.

Guaranteed Minimum Relief in 2004

(9) That

(*a*) for the 2004 and subsequent taxation years,

(i) the amounts on which the basic personal amount and the spouse or common-law partner tax credit (including the equivalent tax credit for a wholly dependent relative) are calculated be no less than $8,000 and $6,800, respectively, and

(ii) the amounts of $30,004, $60,009 and $100,000 referred to in paragraph (1) be no less than $35,000, $70,000 and $113,804, respectively, and

(*b*) after June 2004, the phase-out rate of the base benefit of the Canada Child Tax Benefit be reduced from 5 to 4 per cent (from 2.5 to 2 per cent for families with only one eligible child).

Corporate Income Tax Reduction

(10) That, for the 2002 and subsequent taxation years, in addition to the deductions described in paragraphs (7) and (8) of the 2000 Budget Notice,

(*a*) a deduction be provided from the tax otherwise payable under Part I of the Act for the year by a corporation (other than a corporation that is throughout the year a Canadian-controlled private corporation, an investment corporation, a mortgage investment corporation, a mutual fund corporation or a non-resident-owned investment corporation), equal to the designated percentage of the amount by which the corporation's taxable income for the year exceeds the total of

(i) the total of the amounts in respect of which the corporation applied the deductions from tax provided by subsection 125.1(1) or (2) of the Act,

(ii) 3 times the resource allowance deducted under paragraph 20(1)(*v*.1) of the Act in computing the corporation's income for the year, and

(iii) if the corporation is a credit union, the amount in respect of which the corporation applied the deduction from tax provided by subsection 137(3) of the Act, and

(*b*) a deduction be provided from the tax otherwise payable under Part I of the Act for the year by a Canadian-controlled private corporation, equal to the designated percentage of the amount by which the corporation's taxable income for the year exceeds the total of

(i) the amounts that would, if subparagraph (*a*) applied to the corporation, be determined under clauses (*a*)(i) to (iii) in respect of the corporation for the year,

(ii) the least of the amounts determined under paragraphs 125(1)(*a*) to (*c*) of the Act in respect of the corporation's small business deduction for the year,

(iii) the corporation's aggregate investment income determined under subsection 129(4) of the Act for the year, and

(iv) 100/7 times the amount deducted from the corporation's tax for the year in accordance with the rules described in paragraph (8) of the 2000 Budget Notice,

where the designated percentage is 2 per cent for 2002, 4 per cent for 2003, and 6 per cent after 2003, pro-rated for taxation years that include days in more than one calendar year.

Capital Gains Inclusion Rate

(11) That, for the 2000 and subsequent taxation years,

(*a*) subject to subparagraph (*b*), a taxpayer's taxable capital gains, allowable capital losses and allowable business investment losses reflect an inclusion rate for the year for capital gains and losses that is based on

(i) a 3/4 inclusion rate for net capital gains or losses from dispositions of property before February 28, 2000,

(ii) a 2/3 inclusion rate for net capital gains or losses from dispositions of property after February 27, 2000 and before October 18, 2000, and

(iii) a 1/2 inclusion rate for net capital gains or losses from dispositions of property after October 17, 2000,

(*b*) a taxpayer's taxable capital gain in respect of dispositions to which paragraph 38(*a*.1) of the Act applies reflect an inclusion rate

(i) of 3/8 for dispositions that occur before February 28, 2000,

(ii) of 1/3 for dispositions that occur after February 27, 2000 and before October 18, 2000, and

(iii) of 1/4 for dispositions that occur after October 17, 2000 and before 2002, and

(*c*) in determining a taxpayer's inclusion rate for the year

(i) the taxpayer's net capital gains from dispositions of property in a period be the amount, if any, by which the taxpayer's capital gains exceed the taxpayer's capital losses from dispositions of property in the period,

(ii) the taxpayer's net capital losses from dispositions of property in a period be the amount, if any, by which the taxpayer's capital losses exceed the taxpayer's capital gains from dispositions of property in the period,

(iii) the taxpayer's capital gain for a taxation year from a disposition of property before the year be treated as being from a disposition of property on the first day of the year,

(iv) the amount of a business investment loss be determined without reference to subsection 39(9) of the Act,

(v) the amount that would be included in computing the taxpayer's income for the year because of subsection 80(13) of the Act, if the value of E in the formula in that subsection were 1, in respect of a commercial obligation that is settled at any time be treated as a capital gain of the taxpayer from a disposition of property at that time,

(vi) the taxpayer's capital gain or loss from the disposition of property (other than taxable Canadian property) while the taxpayer is non-resident be treated as being nil, and

(vii) the taxpayer's capital gain in respect of a disposition to which paragraph 38(*a*.1) of the Act applies or in respect of a disposition of ecological property to which the halved inclusion rate applies be treated as being 1/2 the capital gain, and

(*d*) the halved inclusion rate for certain ecological gifts, the rules for determining the capital gains deduction under section 110.6 of the Act and any other rules of determination under the Act be modified to take into account the inclusion rate for the year.

Eligible Capital Property

(12) That the amount required by subsection 14(1) of the Act to be included in computing a taxpayer's income from business (other than in respect of recaptured deductions)

(*a*) reflect a 2/3 inclusion rate for taxation years that end after February 27, 2000 and before October 18, 2000, and

(*b*) reflect a 1/2 inclusion rate for taxation years that end after October 17, 2000,

and that the rules for calculating a corporation's capital dividend account be modified to take into account these changes to the inclusion rate.

Stock Options and Other Deductions

(13) That, for the 2000 and subsequent taxation years, the deductions permitted under paragraphs 110(1)(*d*) to (*d*.3) of the Act in respect of amounts that are included in income for the year (other than amounts that would be included in income for the year if the year had ended at the end of October 17, 2000) be determined as 1/2 of the amounts so included in income.

Donation of Stock Option Shares

(14) That the mechanism described in paragraph (24) of the 2000 Budget Notice to provide a deduction in respect of certain gifts of employee option securities be applied, when as a consequence of the application of paragraph (13) the fraction used to determine the deduction under paragraph 110(1)(*d*) of the Act is 1/2, as if the reference in that Notice to "1/3" were a reference to "1/4".

Capital Gains Deferral

(15) That, in respect of dispositions that occur after October 17, 2000, the mechanism described in paragraph (11) of the 2000 Budget Notice to allow individuals (other than trusts) to defer the recognition of capital gains in respect of eligible small business investments be applied as if

(*a*) the investment limit for an eligible small business investment in a corporation or a related group were increased to $2,000,000,

(*b*) the amount of investment in a corporation or related group in respect of which capital gains deferrals are permitted were increased to $2,000,000,

(*c*) for the purpose of determining if a treasury share issued by the corporation is an eligible small business investment, the carrying value of assets that a small business corporation can hold immediately before and after an investment were $50 million,

(*d*) the reference to the word "primarily" in the requirement that all or substantially all of an eligible active business corporation's assets be used in an active business carried on primarily in Canada, or be shares of other related eligible active business corporations, applied only throughout the period that the individual owned the investment (or, if that period is greater than 24 months, during at least 24 months of the period), and

(*e*) an eligible small business corporation and an eligible active business corporation did not include

(i) a professional corporation,

(ii) a specified financial institution,

(iii) a corporation the principal business of which is the leasing, rental, development or sale or any combination thereof of real property owned by it, or

(iv) a corporation more than 50 per cent of the value of the property of which (net of debts incurred to acquire the property) is attributable to real property.

Flow-Through Shares

(16) That the definition "investment tax credit" in subsection 127(9) of the Act be amended to provide a 15 per cent non-refundable investment tax credit to an individual (other than a trust) for expenses

(*a*) incurred by a corporation after October 17, 2000 and before 2004,

(*b*) renounced in favour of the individual (directly, or indirectly through a partnership of which the individual is a member) pursuant to a flow-through share agreement made after October 17, 2000,

(*c*) incurred in conducting mining exploration activity from or above the surface of the earth for the purpose of determining the existence or location of a mineral resource described in paragraph (*a*) or (*d*) of the definition "mineral resource" in subsection 248(1) of the Act, and

(*d*) that would be described in paragraph (*f*) of the definition "Canadian exploration expense" in subsection 66.1(6) of the Act, if that paragraph were read without the words "digging test pits and preliminary sampling" in subparagraph (iv) thereof,

and that the individual's cumulative Canadian exploration expense at any time in a taxation year be reduced by the amount of this credit claimed for a preceding taxation year.

Foreign Spin-offs

(17) That

(*a*) eligible distributions and prescribed distributions received at any time after 1997 not be taxable,

(*b*) in respect of any such distribution, there be deducted in computing the cost amount of each original share owned by a taxpayer the amount determined by the formula

$$A \times (B/C)$$

where

A is the cost amount at that time, otherwise determined, to the taxpayer of the original share,

B is the fair market value at that time of the spin-off share received by the taxpayer in respect of the original share, and

C is the total of

(i) the fair market value at that time of the taxpayer's original share, and

(ii) the fair market value at that time of the spin-off share received by the taxpayer in respect of the original share,

(*c*) the cost of a spin-off share acquired by the taxpayer in respect of an original share be the amount by which the cost amount of the original share is reduced by subparagraph (*b*), and

(*d*) for the purpose of calculating the value of an inventory of a business, the acquisition of a spin-off share on such a distribution not be considered to be an acquisition of property in the year in which the distribution occurred but the value of the spin-off share be included in the value of the inventory at the end of the year.

(18) For the purposes of paragraph (17) and this paragraph,

(*a*) an "eligible distribution" be a distribution, with respect to all the common shares of a particular corporation owned by a taxpayer immediately before the distribution (in paragraph (17) and this paragraph referred to as the "original shares") to the taxpayer by the particular corporation, that consists solely of common shares of another corporation (in paragraph (17) and this paragraph referred to as the "spin-off shares") where

(i) at the time of the distribution, the particular corporation is a foreign corporation and both corporations are resident in the United States and were never resident in Canada,

(ii) under the *Internal Revenue Code* of the United States, the particular corporation and its shareholders resident in the United States are not taxable in respect of the distribution,

(iii) before the later of June 30, 2001 and the end of the sixth month following the day on which the particular corporation first distributes a spin-off share in respect of the distribution, the particular corporation provides to the Minister of National Revenue information satisfactory to the Minister establishing

(A) the date of the distribution and the type and fair market value of the property distributed to residents of Canada,

(B) the name and address of each resident of Canada that received property with respect to the distribution, and

(C) that the distribution is not taxable under the *Internal Revenue Code* of the United States, and

(iv) the taxpayer elects in the taxpayer's return of income for the taxation year in which the distribution occurs (or in the case of a distribution received by a taxpayer after 1997 and before October 18, 2000, by notifying the Minister in writing before July 2001) to treat the distribution as an eligible distribution and provides satisfactory evidence

(A) of the number, cost amount otherwise determined and fair market value of the original shares owned by the taxpayer at the time of the distribution,

(B) of the number and fair market value of the spin-off shares at the time those shares were received by the taxpayer, and

(C) except where the election is filed with the taxpayer's return of income for the year in which the distribution occurs, concerning the amount of the distribution and the manner in which it was reported by the taxpayer, and details of subsequent dispositions of original shares and spin-off shares as required to determine gains and losses on those dispositions,

(*b*) a "foreign corporation" in relation to a distribution be a corporation the common shares of which (that were original shares) were, throughout the 24-month period preceding the distribution, widely held and actively traded on a prescribed stock exchange in the United States (referred to in Income Tax Regulation 3201),

(*c*) a "prescribed distribution" be a distribution that would be an eligible distribution if

(i) clauses (i) and (ii) of the definition "eligible distribution" in subparagraph (*a*) were read as follows:

"(i) at the time of the distribution, the particular corporation is a foreign corporation and both corporations are resident in the same country, other than Canada and the United States, (in this subparagraph referred to as the "foreign country") with which Canada has a tax treaty,

(ii) under the law of the foreign country, the particular corporation and its shareholders resident in that country are not taxable in respect of the distribution and the distribution is prescribed with such terms and conditions

as are prescribed,",

(ii) that definition were read without reference to subclause (iii)(C), and

(iii) the definition "foreign corporation" in subparagraph (*b*) were read without reference to the words "in the United States", and

(*d*) the Minister of National Revenue be permitted to reassess, after the normal reassessment period, where information is obtained by the Minister that the conditions in subparagraph (ii) of the definition "eligible distribution" or such conditions as may be prescribed in respect of a prescribed distribution are not, or are no longer, satisfied.